



Opportunities for Strategic Change

**Commodity Futures Trading Commission
Strategic Plan
2000-2005**

September 2000



U.S. COMMODITY FUTURES TRADING COMMISSION
Three Lafayette Centre, 1155 21st Street, NW, Washington, DC 20581

William J. Rainer
Chairman

(202) 418-5030
(202) 418-5520 Facsimile

October 12, 2000

The Honorable Jacob Joseph Lew
Director
Office of Management and Budget
Old Executive Office Building
17th Street and Pennsylvania Ave., NW
Washington, DC 20503

Dear Mr. Lew:

I am pleased to transmit to you the Commodity Futures Trading Commission's update of its Strategic Plan.

When the Commission last prepared its Strategic Plan in 1997, several future challenges were identified for the period 1997-2002: the growing use of over-the-counter (OTC) derivatives; structural changes in the financial services industry; globalization of the markets; and the advancement of technology. At that time, the Commission identified likely strategies for dealing with these challenges: the development of a responsive and flexible regulatory posture; and the development of strong working relationships with interested and affected parties.

Now, three years later, the Commission is working diligently with interested parties to fashion the most effective regulatory framework for the dealing with these challenges while protecting the interests of the public.

As a first major step toward regulatory modernization, the Commission has published in the *Federal Register*, as a proposed rule, the general framework for a new regulatory structure. The new regulatory framework addresses many of the challenges raised in the original Strategic Plan and posed by the rapidly changing market environment.

Another opportunity for regulatory progress includes the upcoming reauthorization of the Commission (the Commission is authorized through September 30, 2000) including the possible codification of the recent agreement between the CFTC and the SEC to lift the 1982 ban on "security futures," i.e., single stocks and narrow-based stock indices.

A more detailed presentation of the implications of the new regulatory framework and reauthorization are included herein.

Since the last submission of the Strategic Plan in 1997, the Commission's strategic goals have not changed; during this time, there were no changes to the Commodity Exchange Act (CEA). Accordingly, the Commission's mission continues to be to foster the economic utility of the futures markets by encouraging their competitiveness and efficiency, ensuring their integrity, and protecting market participants against manipulation, abusive trade practices, and fraud.

On behalf of the entire Commission, I appreciate the opportunity to convey this update to you.

Sincerely yours,

A handwritten signature in black ink, appearing to read "William J. Rainer". The signature is fluid and cursive, with a prominent "W" and "J".

William J. Rainer

Enclosure



U.S. COMMODITY FUTURES TRADING COMMISSION
Three Lafayette Centre, 1155 21st Street, NW, Washington, DC 20581

William J. Rainer
Chairman

(202) 418-5030
(202) 418-5520 Facsimile

October 12, 2000

The Honorable Ted Stevens
Chairman
Committee on Appropriations
United States Senate
S-128 Capitol Building
Washington, D.C. 20510-6025

The Honorable C. W. Bill Young
Chairman
Committee on Appropriations
United States House of Representatives
2407 Rayburn House Office Building
Washington, D.C. 20515-6015

Dear Chairman Stevens and Chairman Young:

I am pleased to transmit to you the Commodity Futures Trading Commission's update of its Strategic Plan.

When the Commission last prepared its Strategic Plan in 1997, several future challenges were identified for the period 1997-2002: the growing use of over-the-counter (OTC) derivatives; structural changes in the financial services industry; globalization of the markets; and the advancement of technology. At that time, the Commission identified likely strategies for dealing with these challenges: the development of a responsive and flexible regulatory posture; and the development of strong working relationships with interested and affected parties.

Now, three years later, the Commission is working diligently with interested parties to fashion the most effective regulatory framework for the dealing with these challenges while protecting the interests of the public.

As a first major step toward regulatory modernization, the Commission has published in the *Federal Register*, as a proposed rule, the general framework for a new regulatory structure. The new regulatory framework addresses many of the challenges raised in the original Strategic Plan and posed by the rapidly changing market environment.

Another opportunity for regulatory progress includes the upcoming reauthorization of the Commission (the Commission is authorized through September 30, 2000) including the possible codification of the recent agreement between the CFTC and the SEC to lift the 1982 ban on "security futures," i.e., single stocks and narrow-based stock indices.

A more detailed presentation of the implications of the new regulatory framework and reauthorization are included herein.

Since the last submission of the Strategic Plan in 1997, the Commission's strategic goals have not changed; during this time, there were no changes to the Commodity Exchange Act (CEA). Accordingly, the Commission's mission continues to be to foster the economic utility of the futures markets by encouraging their competitiveness and efficiency, ensuring their integrity, and protecting market participants against manipulation, abusive trade practices, and fraud.

On behalf of the entire Commission, I appreciate the opportunity to convey this update to you.

Sincerely yours,

A handwritten signature in black ink, appearing to read "William J. Rainer". The signature is fluid and cursive, with the first name "William" being more prominent.

William J. Rainer

Enclosure



U.S. COMMODITY FUTURES TRADING COMMISSION

Three Lafayette Centre, 1155 21st Street, NW, Washington, DC 20581

William J. Rainer
Chairman

(202) 418-5030
(202) 418-5520 Facsimile

October 12, 2000

The Honorable Strom Thurmond
President Pro Tempore
United States Senate
Washington, DC 20510

The Honorable J. Dennis Hastert
Speaker
United States House of Representatives
Washington, DC 20515

Dear Mr. President Pro Tempore and Mr. Speaker:

I am pleased to transmit to you the Commodity Futures Trading Commission's update of its Strategic Plan.

When the Commission last prepared its Strategic Plan in 1997, several future challenges were identified for the period 1997-2002: the growing use of over-the-counter (OTC) derivatives; structural changes in the financial services industry; globalization of the markets; and the advancement of technology. At that time, the Commission identified likely strategies for dealing with these challenges: the development of a responsive and flexible regulatory posture; and the development of strong working relationships with interested and affected parties.

Now, three years later, the Commission is working diligently with interested parties to fashion the most effective regulatory framework for the dealing with these challenges while protecting the interests of the public.

As a first major step toward regulatory modernization, the Commission has published in the *Federal Register*, as a proposed rule, the general framework for a new regulatory structure. The new regulatory framework addresses many of the challenges raised in the original Strategic Plan and posed by the rapidly changing market environment.

Another opportunity for regulatory progress includes the upcoming reauthorization of the Commission (the Commission is authorized through September 30, 2000) including the possible codification of the recent agreement between the CFTC and the SEC to lift the 1982 ban on "security futures," i.e., single stocks and narrow-based stock indices.

A more detailed presentation of the implications of the new regulatory framework and reauthorization are included herein.

Since the last submission of the Strategic Plan in 1997, the Commission's strategic goals have not changed; during this time, there were no changes to the Commodity Exchange Act (CEA). Accordingly, the Commission's mission continues to be to foster the economic utility of the futures markets by encouraging their competitiveness and efficiency, ensuring their integrity, and protecting market participants against manipulation, abusive trade practices, and fraud.

On behalf of the entire Commission, I appreciate the opportunity to convey this update to you.

Sincerely yours,

A handwritten signature in black ink, appearing to read "William J. Rainer". The signature is fluid and cursive, with a prominent flourish at the end.

William J. Rainer

Enclosure

cc:

The Honorable Richard G. Lugar
Chairman
Committee on Agriculture,
Nutrition, and Forestry
U.S. Senate
Washington, D.C. 20510

The Honorable Thad Cochran
Chairman
Subcommittee on Agriculture,
Rural Development, and Related Agencies
Committee on Appropriations
U.S. Senate
Washington, D.C. 20510

The Honorable Pete V. Domenici
Chairman
Committee on the Budget
U.S. Senate
Washington, D.C. 20510

The Honorable Fred Thompson
Chairman
Committee on Governmental Affairs
U.S. Senate
Washington, D.C. 20510

The Honorable Larry Combest
Chairman
Committee on Agriculture
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Joe Skeen
Chairman
Subcommittee on Agriculture, Rural
Development, FDA, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Tom Harkin
Ranking Minority Member
Committee on Agriculture,
Nutrition, and Forestry
U.S. Senate
Washington, D.C. 20510

The Honorable Herb Kohl
Ranking Minority Member
Subcommittee on Agriculture,
Rural Development, and Related Agencies
Committee on Appropriations
U.S. Senate
Washington, D.C. 20510

The Honorable Frank R. Lautenberg
Ranking Minority Member
Committee on the Budget
U.S. Senate
Washington, D.C. 20510

The Honorable Joseph I. Lieberman
Ranking Minority Member
Committee on Governmental Affairs
U.S. Senate
Washington, D.C. 20510

The Honorable Charles W. Stenholm
Ranking Minority Member
Committee on Agriculture
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Marcy Kaptur
Ranking Minority Member
Subcommittee on Agriculture, Rural
Development, FDA, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
Washington, D.C. 20515

The Honorable John R. Kasick
Chairman
Committee on the Budget
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Dan Burton
Chairman
Committee on Government Reform
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Peter G. Fitzgerald
Chairman
Subcommittee on Research, Nutrition,
and General Legislation
Committee on Agriculture, Nutrition
and Forestry
U.S. Senate
Washington, D.C. 20510

The Honorable Thomas W. Ewing
Chairman
Subcommittee on Risk Management,
Research and Specialty Crops
Committee on Agriculture
U.S. House of Representatives
Washington, D.C. 20510

The Honorable John M. Spratt, Jr.
Ranking Minority Member
Committee on the Budget
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Henry A. Waxman
Ranking Minority Member
Committee on Government Reform
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Patrick J. Leahy
Ranking Minority Member
Subcommittee on Research, Nutrition,
and General Legislation
Committee on Agriculture, Nutrition
and Forestry
U.S. Senate
Washington, D.C. 20510

The Honorable Gary Condit
Ranking Minority Member
Subcommittee on Risk Management,
Research and Specialty Crops
Committee on Agriculture
U.S. House of Representatives
Washington, D.C. 20510



Opportunities for Strategic Change

COMMODITY FUTURES TRADING COMMISSION

Strategic Plan

2000-2005

Table of Contents

| | |
|--|-----------|
| Vision Statement | 1 |
| Introduction: Opportunities for Strategic Change | 2 |
| <i>Reforming the Regulation of Exchange-Traded Futures</i> | <i>2</i> |
| <i>Reauthorization</i> | <i>4</i> |
| <i>Reform of the Shad-Johnson Accord.....</i> | <i>5</i> |
| <i>Summary</i> | <i>6</i> |
| Mission Statement | 7 |
| <i>Background</i> | <i>7</i> |
| Strategic Goals..... | 8 |
| <i>Goal One – The Marketplace</i> | <i>8</i> |
| <i>Goal Two – The Market Users</i> | <i>8</i> |
| <i>Goal Three – The Environment.....</i> | <i>8</i> |
| Outcome Objectives..... | 9 |
| <i>Goal One – The Marketplace</i> | <i>9</i> |
| <i>Goal Two – The Market Users</i> | <i>9</i> |
| <i>Goal Three – The Environment.....</i> | <i>9</i> |
| Activities..... | 10 |
| <i>Summaries of Outcome Objectives & Activities – Goal One</i> | <i>11</i> |
| <i>Summaries of Outcome Objectives & Activities – Goal Two</i> | <i>12</i> |
| <i>Summaries of Outcome Objectives & Activities – Goal Three</i> | <i>13</i> |
| Description of Goals, Strategies & Relationship to the Annual | |
| Performance Plan..... | 14 |
| <i>Goal One – The Marketplace</i> | <i>14</i> |
| Description..... | 14 |
| Strategies for Achieving the Goal of Protecting the Economic | |
| Functions of the Market Place..... | 14 |
| Relationship of Long-term Goals to Annual Performance Goals | 16 |
| <i>Goal Two – The Market Users</i> | <i>19</i> |
| Description..... | 19 |
| Strategies for Achieving the Goal of Protecting Market Users and the | |
| Public..... | 20 |
| Relationship of Long-term Goals to Annual Performance Goals | 21 |
| <i>Goal Three – The Environment.....</i> | <i>23</i> |
| Description..... | 23 |
| Strategies to Achieving the Goal of Fostering an Open, Competitive, | |
| and Financially Sound Market Environment | 23 |
| Relationship of Long-term Goals to Annual Performance Goals | 25 |

| | |
|---|-----------|
| Achieving The Goals: Strategies to Mission Performance – 2000-2005 | 30 |
| <i>The Challenges</i> | 30 |
| <i>The Strategies.....</i> | 30 |
| Achieving The Goals: External Challenges – 2000-2005 | 31 |
| <i>The External Challenges.....</i> | 31 |
| <i>The Strategies to Overcome External Challenges.....</i> | 32 |
| Achieving The Goals: Internal Challenges – 2000-2005..... | 39 |
| <i>The Internal Challenges.....</i> | 39 |
| <i>The Strategies to Overcome Internal Challenges.....</i> | 41 |
| Achieving and Measuring Performance | 44 |
| <i>Achieving Performance</i> | 44 |
| <i>Measuring Performance:</i> | 48 |
| <i>The Annual Performance Plan</i> | 48 |
| Relating General Goals and Objectives to Performance Goals and Program Evaluation..... | 49 |
| <i>Quarterly Performance Review Process.....</i> | 49 |
| <i>Management Accounting Structure Code System</i> | 49 |
| <i>Status of Funds Reporting Process</i> | 49 |
| <i>Stakeholders</i> | 50 |
| <i>Leadership</i> | 50 |
| <i>Monitoring External and Internal Factors.....</i> | 50 |
| <i>US Commodity Exchanges</i> | 51 |
| <i>Updated Map of CFTC-Regulated Commodity Exchanges*</i> | 52 |
| <i>Number of Registered Commodities Professionals</i> | 53 |
| <i>Number of Contract Markets.....</i> | 54 |
| <i>Volume of Trading</i> | 55 |
| <i>Managed Funds</i> | 56 |
| CFTC Offices..... | 59 |
| <i>Headquarters.....</i> | 59 |
| <i>Eastern Regional Office.....</i> | 59 |
| <i>Central Regional Office.....</i> | 59 |
| <i>Southwestern Regional Office</i> | 59 |
| <i>Western Regional Office.....</i> | 59 |
| <i>Organizational Structure</i> | 60 |
| <i>Staffing</i> | 61 |
| Publications and Information | 64 |

Vision Statement

For the years 2000 through 2005, the Commodity Futures Trading Commission will:

Preserve and protect the vital role America's commodity markets play in establishing fair prices for goods and services and managing the risks of their production, marketing, and distribution in the world economy.

Introduction: Opportunities for Strategic Change

At the time of the submission of this update to the Strategic Plan, the Commission is presented with several opportunities for strategic change, including the possibility of: 1) statutory changes required by Commission reauthorization, including possible codification of the recently re-negotiated "Shad-Johnson Accord" with the SEC, which provides for joint jurisdiction over security futures, i.e., single-stock futures and narrow-based stock indices; and 2) expansion of regulatory reform through rulemaking, as represented by the Commission's ongoing consideration of new rules that would substantially alter the current approach to regulating the futures industry. The latter, often referred to as "the new regulatory framework," is intended to provide a flexible response to the changes that are taking place in the futures markets, particularly technological innovations that offer faster and more efficient ways to buy and sell futures and option contracts.

This Strategic Plan cannot assume or predict the final outcome of reauthorization, the regulation of security futures, or the proposed "new regulatory framework," although each is discussed briefly below. However, since rulemaking, unlike statutory changes, is within the purview of the Commission, the impact of the proposed "new regulatory framework" is discussed in the Strategic Plan as a *strategy* for change.

Reforming the Regulation of Exchange-Traded Futures

Through rulemaking, the Commission has already taken some initial steps in reforming the regulatory process. For example, the CFTC has adopted regulations withdrawing the requirement that the Commission approve applications by futures exchanges to be designated as contract markets before listing new products for trading. As a second step, the Commission has issued proposed regulations to permit exchanges to adopt certain rule changes without prior approval. These are first steps in a move that may ultimately transform the CFTC from a "front-line" regulator to more of an "oversight" agency.

Last year, the Commission formed a staff task force to create a new regulatory framework. To assist in this effort, the Commission held two public roundtables, one Agriculture Advisory Committee meeting and a public hearing. To assure that the task force considered an array of perspectives, the staff also met frequently with participants in the derivatives markets, who represented a range of industry views. The resulting staff recommendation for a new regulatory framework has been shared with industry, other government agencies, and the Commission's oversight committees in Congress.

The new framework is still a work in progress. The Commission has proposed publicly, in the *Federal Register*, rules to implement the framework. The proposed rules were published on June 22, 2000; the comment period on those rules ended on August 21, 2000 following a 15-day extension of the original deadline.

The framework is intended to address many of the very difficult regulatory issues posed by changing market conditions. The public interest demands acknowledgment of the differences among futures contracts and adjustment, where appropriate, of the regulatory burden to a level commensurate with the nature of the product traded and the type of entity trading it. Accordingly, flexibility is the hallmark of the new framework. The plan replaces the concept of a designated contract market with two new kinds of trading facilities: recognized futures exchanges (RFEs) and derivative transaction facilities (DTFs), each of which would be subject to a different level of Commission oversight. The framework also contemplates a category of exempt multilateral trade execution facilities – exempt MTEFs – which would operate on an unregulated basis. While the framework invites change, it does not impose it on established futures exchanges. Existing exchanges operating as contract markets *may* reorganize under the terms of the framework; however, they are not compelled to do so.

Recognized Futures Exchanges

The multi-tiered design takes into account important differences among underlying commodities and the different levels of financial sophistication among traders. Of the new trading facilities described in the framework, recognized futures exchanges – RFEs – will be subject to the greatest degree of CFTC oversight. RFEs may list any commodity and offer open access to all trading participants. Unlike designated contract markets, which operate under a number of detailed, prescriptive rules, RFEs will be subject to 15 core principles that can be adapted to the needs and practices of individual market participants.

Upon adoption of the framework, the RFE model could be used immediately by existing exchanges. Moreover, this regulatory structure inherently removes barriers to entry faced by start-up, electronic trading platforms that may want to attract a broad-based market. Such a platform could seek recognition as an RFE and avoid the process of filing an application under rules designed for a traditional board of trade. The 15 core principles applicable to RFEs nevertheless capture all essential elements of an effective regulatory structure and meet generally applicable international standards, including requirements for transparency, fair trading standards, financial integrity and customer protection.

Derivative Transaction Facilities

The second new trading facility proposed in the framework, the recognized DTF, may be of great benefit to both existing exchanges and to startups. The DTF category establishes a facility subject to seven core principles. It represents a recognition that not all commodities are alike, and that, as a consequence, the nature of the product that underlies a derivative transaction affects the level of regulation that ought to govern that market. Fewer core principles apply because generally a DTF may offer: 1) contracts only on a specified list of commodities that have a nearly inexhaustible deliverable supply or no underlying cash market; or

2) contracts that have been determined on a cases-by-case basis to be appropriate for listing on a DTF; or 3) contracts traded only by commercial traders, regardless of the nature of the underlying commodity (except for certain domestic agricultural contracts).

Exempt Multilateral Trade Execution Facilities

The framework describes a third class of trading facility, exempt MTEFs, which will not bear the imprimatur of Commission recognition. These will be limited to institutional traders and to market contracts on a specified list of contracts that have virtually inexhaustible deliverable supplies or no underlying cash market. Consequently, they will be exempt from all provisions of the CEA except prohibitions against fraud and manipulation.

The “new regulatory framework” is still being refined and represents a departure for the current one-size-fits-all approach. The CFTC is committed to finding viable solutions to enable these markets to prosper and the US to maintain its leadership role in the increasingly competitive global financial markets.

Reauthorization

Since Congress created the CFTC through the enactment of the Commodity Futures Trading Commission Act of 1974 as an amendment to the CEA, the CFTC has been subject to periodic review and reauthorization by the Congress. In 1995, Congress authorized the CFTC through September 30, 2000. Traditionally, Congress utilizes the reauthorization process to perform oversight of the Commission, to re-examine the laws governing futures transactions, to enact substantive changes in the law where necessary, and to extend the Commission’s authorization to receive appropriations.

On July 1, 1999, Senator Richard Lugar, Chairman of the Senate Committee on Agriculture, Nutrition, and Forestry, and Representative Thomas Ewing, Chairman of the House Subcommittee on Risk Management, Research and Specialty Crops, issued a joint press release that set forth the following parameters for CFTC reauthorization. They concurred that the legislation should:

1. Revamp functions of the CFTC to transform the agency from a frontline regulator to an “oversight” agency as long as such changes do not conflict with the public interest;
2. Clarify and refocus the jurisdiction of the CFTC without significantly expanding its original grant of authority;
3. Streamline and eliminate unnecessary regulations for the futures exchanges;
4. Incorporate how the emergence of electronic trading may require a different level and approach to regulation; and

5. Provide legal certainty for OTC derivatives, and reform the Shad-Johnson accord as regulatory disparities are addressed.

The Commission will be working closely with the Congress to help ensure the reauthorization of the Commission. Specific legislation reauthorizing the CFTC is being drafted by Congress at this time. Many of the issues raised by Chairmen Lugar and Ewing in their July 1, 1999 release have been the subject of Congressional hearings, roundtables, and educational seminars for Congressional staff. Commission rulemaking, roundtables, and advisory committee meetings have also addressed these issues.

Reform of the Shad-Johnson Accord

The Shad-Johnson jurisdictional accord (Accord) was an agreement reached between the Chairmen of the SEC and the CFTC – and codified by Congress in the CFTC’s 1982 reauthorization – to clarify the jurisdiction of each agency over certain security-based derivatives. Under the Accord, the CFTC was authorized to permit trading in stock-index futures on the nation’s futures exchanges, provided the futures contracts were cash-settled, not readily susceptible to manipulation, and based on a broad or substantial segment of the equity or debt market. All such contracts proposed to be traded on futures exchanges were subject to SEC review before they could be reviewed and approved by the CFTC. Futures on individual non-exempt securities, such as corporate stock or debt, were prohibited.

Trading in stock index futures has proved to be successful and some industry representatives have expressed the opinion that the restrictions in the Accord, particularly the prohibition on single-stock futures, should be repealed.

This matter was of sufficient importance to Congress that Chairman Lugar of the Senate Agriculture Committee and Chairman Gramm of the Senate Banking Committee wrote a joint letter to the SEC and the CFTC on December 17, 1999. On January 20, 2000, Chairman Combest of the House Committee on Agriculture, Chairman Bliley of the House Committee on Commerce, Congressman Stenholm, Ranking Member, Committee on Agriculture, and Chairman Ewing of the House Agriculture Subcommittee on Risk Management, Research and Specialty Crops wrote a joint letter to the SEC and CFTC requesting a report addressing the desirability of lifting the current prohibition on single-stock futures together with any legislative proposals.

After months of diligent work on both sides, on September 14, 2000, the CFTC and the SEC jointly agreed on a basis for repealing the 18-year old ban on single-stock futures and narrow-based stock indices – together referred to as “security futures.” In short, the Accord reached by the CFTC and the SEC would: 1) define “security futures” as a security within the meaning of the federal securities laws; 2) recognize “security

futures” as futures covered by the CEA; and 3) require markets and intermediaries trading “security futures” to register with the CFTC and the SEC. Under the agreement, the new “security futures” could be traded on either futures or securities exchanges beginning one year after a bill with this provision becomes law.

Summary

The submission of the CFTC’s Strategic Plan precedes the resolution of two events influential to the future of the agency: reauthorization – including codification of the new Accord on “security futures” – and the proposed “new regulatory framework.”

The current authorization for the Commission extends through the end of fiscal year (FY) 2000. The Commission’s sixth reauthorization has raised particularly complex issues; deliberations on the reauthorization of the Commission are expected to extend beyond the expiration date. Given the uncertainty of the outcome of reauthorization, the Strategic Plan cannot assume what changes, if any, will be made to the CEA.

The ultimate fate of the “new regulatory framework” is also unknown. However, since the framework, or an alternative proposal(s), may be adopted through rulemaking within the Commission’s existing statutory authority, the impact of the proposed “new regulatory framework” is considered in the Strategic Plan as a potential strategy to achieving Commission goals.

Mission Statement

The mission of the Commodity Futures Trading Commission (CFTC) is to protect market users and the public from fraud, manipulation, and abusive practices related to the sale of commodity futures and options, and to foster open, competitive, and financially sound commodity futures and option markets.

Background

The Commodity Futures Trading Commission was created as an independent agency by Congress in 1974 under the authorization of the Commodity Futures Trading Commission Act¹ with the mandate to regulate commodity futures and option markets in the United States. The agency's mandate was renewed and expanded under the Futures Trading Act of 1978, 1982, and 1986 and under the Futures Trading Practices Act of 1992. The CFTC Reauthorization Act of 1995 reauthorized the Commission through FY 2000.

Today, the CFTC is responsible for ensuring the economic utility of futures markets by encouraging their competitiveness and efficiency, ensuring their integrity, and protecting market participants against manipulation, abusive trade practices, and fraud. Through effective oversight regulation, the CFTC enables the commodity futures markets to serve better their important function in the nation's economy of providing a mechanism for price discovery and a means of offsetting price risk.

Futures contracts for agricultural commodities have been traded in the US for 150 years and have been under federal regulation since the 1920s. In recent years, futures trading has expanded rapidly into many new markets, beyond the domain of traditional physical and agricultural commodities. Futures and option contracts are now offered in a vast array of financial instruments, including foreign currencies, US and foreign government securities, and US and foreign stock indices.

¹ Commodity Exchange Act, as amended
(7 U.S.C., Section 1, *et seq.*)

Strategic Goals

The mission of the Commodity Futures Trading Commission is accomplished through three strategic goals, each focusing on a vital area of regulatory responsibility.

Goal One – The Marketplace

Protect the economic functions of the commodity futures and option markets.

The focus of this goal is the *marketplace*. If the United States commodity futures markets are protected from and are free of abusive practices and influences, they will better operate to fulfill their vital role in the nation's market economy and the global economy – accurately reflecting the forces of supply and demand and serving market users by fulfilling an economic need.

Goal Two – The Market Users

Protect market users and the public.

The focus of the second goal is protection of the firms and individuals – *market users* – who come to the marketplace to fulfill their business and trading needs. Market users must be protected from possible wrongdoing on the part of the firms and commodity professionals with whom they deal to access the marketplace, and they must be assured that the marketplace is free of fraud, manipulation, and abusive trading practices.

Goal Three – The Environment

Foster open, competitive, and financially sound markets.

The third goal focuses on several important outcomes – effective industry *self-regulation*, firms and financial intermediaries with *sound business, financial, and sales practices*, and responsive and flexible *regulatory oversight*.

Outcome Objectives

Accomplishing the three long-term strategic goals results in a number of key outcomes. In most cases, due to the broad economic functions that the Commission oversees, it is not a simple task to identify specific detailed objectives that will be accomplished each of the five years covered by this plan. We may, however, identify conditions that, if present, are indicators that the Commission's activities are contributing successfully to the health of the industry it regulates. CFTC has nine outcome objectives.

Goal One – The Marketplace

- Foster futures and option markets that accurately reflect the forces of supply and demand for the underlying commodity and are free of disruptive activity.
- Oversee markets which can be used effectively by producers, processors, financial institutions, and other firms for the purposes of price discovery and risk shifting.

Goal Two – The Market Users

- Promote compliance with and deter violations of federal commodities laws.
- Require commodities professionals to meet high standards.
- Provide a forum for effectively and expeditiously handling customer complaints against persons or firms registered under the Commodity Exchange Act.

Goal Three – The Environment

- Ensure sound financial practices of clearing organizations and firms holding customer funds.
- Promote and enhance effective self-regulation of the commodity futures and option markets.
- Facilitate the continued development of an effective, flexible regulatory environment responsive to evolving market conditions.
- Promote markets free of trade practice abuses.

Activities

Commission staff perform key activities in order to achieve the goals and produce the desired outcomes of this Strategic Plan. The Commission tracks the level of resources devoted to each activity and, in turn, each outcome and goal.

Each goal is supported by a specific set of activities. There are instances in which similar activities appear under different goals. In the area of investigation and litigation, for example, each goal is supported by the type of enforcement activity specific to its achievement. In Goal One, therefore, the Commission tracks the resource expenditures related to investigating and litigating market manipulation and other abusive trading practices; for Goal Two, staff capture separately the resources devoted to the investigation and litigation of fraudulent activities affecting market users; and in Goal Three, the Commission measures the resources expended on matters involving the exchanges and firms operating in the industry.

The sets of activities for each goal appear on the following pages.

COMMODITY FUTURES TRADING COMMISSION
STRATEGIC PLAN

Summaries of Outcome Objectives & Activities – Goal One

| <i>Goal One: Protect the economic functions of the commodity futures and option markets.</i> | |
|---|---|
| Outcome Objective | Activity |
| 1. Foster futures and option markets that accurately reflect the forces of supply and demand for the underlying commodity and are free of disruptive activity. | <ol style="list-style-type: none"> 1. Collect US futures and option large trader and exchange-generated data for all actively trading contracts to support market surveillance, enforcement of speculative limits, dissemination of information to the public, and futures market studies and research by Commission staff and others. 2. Monitor the markets to detect and respond quickly to potentially disruptive situations such as market congestion and/or potential price manipulation. 3. Conduct timely review of contract market designation applications and changes to applications to determine if they are economically viable and do not pose a likelihood of disruption in the cash, futures, and option markets. 4. Identify possible manipulation and other abusive trading practices for investigation and possible enforcement or criminal action. 5. Investigate possible manipulation and other abusive trading practices. 6. Institute enforcement cases concerning manipulation and other abusive trading practices. 7. Sanction violators. |
| 2. Oversee markets which can be used effectively by producers, processors, financial institutions, and other firms for the purposes of price discovery and risk shifting. | <ol style="list-style-type: none"> 1. Participate in the President's Working Group on Financial Markets to ensure coordination of information and efforts among US financial regulators. 2. Maintain a current understanding of market functions and developments through studies and research. 3. Provide materials and information on the functions and utility of the markets to the public through public Commission meetings, through public roundtables, advisory committee meetings, symposia, US Department of Agriculture publications, routine reports on large trader activity, etc. |

Summaries of Outcome Objectives & Activities – Goal Two

| <i>Goal Two: Protect market users and the public.</i> | |
|--|---|
| Outcome Objective | Activity |
| 1. Promote compliance with and deter violations of federal commodities laws. | <ol style="list-style-type: none"> 1. Identify and investigate possible fraudulent and other illegal activities relating to the commodity futures and option markets and their registrants. 2. Bring injunctive actions, including using “quick-strike” efforts to protect assets and to stop egregious conduct. 3. Bring administrative cases involving fraud and other violations. 4. Hear administrative cases. 5. Sanction violators in injunctive actions and administrative cases. 6. Inform the public and the industry of the reasons for the Commission’s decisions concerning allegations of wrongdoing through published opinions describing the alleged violations and the Commission’s legal and policy analysis. 7. Collect sanctions and civil monetary penalties against violators. 8. Cooperate with the exchanges, the National Futures Association, other federal agencies, state governments and law enforcement entities, and foreign authorities to gain information for law enforcement purposes and to provide enforcement assistance as necessary and appropriate. 9. Monitor the Internet and other communications media for fraudulent activities and other possible violations of the Act. 10. Resolve appeals in administrative enforcement matters and self-regulatory organization adjudicatory actions. |
| 2. Require commodities professionals to meet high standards. | <ol style="list-style-type: none"> 1. Oversee the National Futures Association registration program, including testing, licensing, and ethics training for commodities professionals. 2. Oversee NFA’s document disclosure review program. 3. Investigate and bring administrative registration cases arising out of alleged statutory disqualification and obtain suspensions, revocations, conditions, or restrictions of registration. |
| 3. Provide a forum for effectively and expeditiously handling customer complaints against persons or firms registered under the Act. | <ol style="list-style-type: none"> 1. Provide a reparations program for commodities market users to make claims relating to violations of the Act. |

COMMODITY FUTURES TRADING COMMISSION
STRATEGIC PLAN

Summaries of Outcome Objectives & Activities – Goal Three

| <i>Goal Three: Foster open, competitive, and financially sound markets.</i> | |
|--|--|
| Outcome Objective | Activity |
| 1. Ensure sound financial practices of clearing organizations and firms holding customer funds. | <ol style="list-style-type: none"> 1. Promulgate regulations to ensure sound business, financial, and sales practices in firms participating in the commodities industry. 2. Review and oversee self-regulatory organization audit and financial practices. 3. Identify and investigate possible financial, capitalization, segregation, and supervision violations for investigation and possible prosecution. 4. Bring cases concerning financial, capitalization, segregation, and supervision violations. 5. Sanction violators. |
| 2. Promote and enhance effective self-regulation of the commodity futures and option markets. | <ol style="list-style-type: none"> 1. Review and approve self-regulatory organization rules and rule amendments. 2. Conduct rule enforcement reviews of self-regulatory organizations (financial practices, sales practices, trade practices, and audit trail). 3. Review and oversee self-regulatory organization audit and financial practices. 4. Review adequacy of self-regulatory organization disciplinary actions. 5. Conduct direct audits of clearing organizations and firms handling customer money to ensure compliance with capitalization and segregation rules. 6. Promulgate regulations to ensure effective self-regulation by exchanges, clearing organizations, and registered futures associations. |
| 3. Facilitate the continued development of an effective, flexible regulatory environment responsive to evolving market conditions. | <ol style="list-style-type: none"> 1. Coordinate and cooperate with global financial services regulators to share vital information concerning markets, intermediaries, and regulatory structure. 2. Coordinate and cooperate with global financial services regulators to develop appropriate global standards and arrangements in the commodities industry as markets emerge and evolve. 3. Participate in the International Organization of Securities Commissions and represent the Commission at international meetings concerning commodity regulation. 4. Participate in the President's Working Group on Financial Markets to ensure coordination of information and efforts among US financial regulators. 5. Provide exemptive, interpretive, or other relief as appropriate to foster the development of innovative transactions, trading systems, and similar arrangements. |
| 4. Promote markets free of trade practice abuses. | <ol style="list-style-type: none"> 1. Identify possible trade practice violations for investigation and possible enforcement proceedings. 2. Investigate possible trade practice violations. 3. Bring cases concerning trade practice violations. 4. Sanction violators. |

Description of Goals, Strategies & Relationship to the Annual Performance Plan

Goal One – The Marketplace

Protect the economic functions of the commodity futures and option markets.

Description

The Commission is responsible for oversight of the commodity futures and option markets of the United States to see that they remain competitive and responsive to underlying supply and demand factors. By detecting and protecting against price manipulation, this program assists the markets in performing their vital economic functions of price discovery and risk transfer (hedging).

Futures prices are generally quoted and disseminated throughout the United States and foreign countries as a basis for determining prices paid to producers and by consumers and to facilitate movements of commodities in interstate commerce. Since futures and option prices are susceptible to manipulation and since producers and users of the underlying commodities can be harmed by manipulated prices, preventative measures are necessary to ensure that market prices accurately reflect supply and demand conditions.

Measures to prevent price manipulation are carried out by economists, who monitor all active futures and option contracts for potential problems. If possible manipulations and other abusive trading practices are identified, they are investigated and considered for possible enforcement or criminal action. Violators are sanctioned.

Strategies for Achieving the Goal of Protecting the Economic Functions of the Market Place

Collect and analyze trading data –

On a daily basis, CFTC collects and analyzes US futures and option data for all actively trading contracts to detect congestion and/or price distortion. Economists analyze the activities of traders, key price relationships, and relevant supply and demand conditions for nearly 300 contracts representing major agricultural commodities, metals, energy, financial instruments, equity indices, and foreign currencies.

CFTC staff also analyze markets to determine how conditions and factors observed may impact individual registrants or the markets in general to deter potentially negative situations and to take appropriate action, responding quickly to potentially disruptive situations.

Review and approve trading tools –

Properly designed futures and option markets serve vital price discovery and hedging functions, which are essential to a healthy, capital-based economy. Business, agricultural, and financial enterprises use the

futures markets for pricing information and to hedge against price risk. The participants in commercial transactions rely extensively on the prices established by futures markets that affect trillions of dollars in commercial activity. Moreover, the prices established by the futures markets directly or indirectly affect all Americans. They affect what Americans pay for food, clothing, and shelter.

Deficiencies in the terms and conditions of futures and option contracts increase the likelihood of cash, futures, or option market disruptions and also decrease the economic usefulness and efficiency of a contract. To meet its statutory mission of ensuring market integrity and customer protection, the Commission places greater reliance on its existing oversight authorities in permitting exchanges to list contracts for trading without prior Commission approval while relying on its authority to then alter, or supplement exchange rules or to take emergency action, as appropriate. Thus, the Commission will exercise greater oversight authority with decreased direct regulation.

Analyze markets and provide expert analysis –

Each week, reports are prepared on special market situations and on market conditions for all contracts approaching their critical expiration periods. Potential problems detected in preparing these reports are shared with the Commissioners and senior staff. The Commission shares pertinent information with other regulatory agencies and works with the affected exchange to develop and to administer responsive measures as necessary.

Economists and futures trading specialists track innovation in the marketplace in technology, trading strategies, trading instruments, and methods to ensure an understanding of how the markets are functioning and to develop a flexible, effective regulatory response to market conditions as they evolve.

Coordinate with other financial regulators –

The Chairman participates in the President's Working Group on Financial Markets (Working Group) to ensure coordination of information and efforts among US financial regulators. The Working Group brings together the leaders of the federal financial regulatory agencies, including the Secretary of the Treasury, who chairs the group, and chairs of the Board of Governors of the Federal Reserve System (FRB), the CFTC, and the SEC. In addition to the four primary financial regulators, the Working Group also includes the heads of the National Economic Council (NEC), the Council of Economic Advisors, the Office of the Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC), Federal Reserve Bank of New York, and the Office of Thrift Supervision. Issues considered by the Working Group and its staff have included individual and coordinated agency initiatives concerning risk assessment, capital requirements, internal controls, disclosure, accounting, market practices relating to trading in derivative instruments, bankruptcy law revisions, and contingency planning

for market emergencies. Every two weeks, Commission staff participate in the Steering Committee to discuss ongoing issues.

Provide information on the functions of the marketplace –

Commission staff prepare and provide materials and information on the functions and utility of the markets to the public through public Commission meetings, public roundtables, advisory committee meetings, symposia, publications, press releases, advisories, and publication of the Commitment of Trader reports.

Investigate and prosecute wrongdoing –

Commission attorneys and investigators conduct investigations and institute enforcement actions against potential violations. Violators are sanctioned. The sanctions are publicized and enforced.

Review regulations and amend or abolish as appropriate –

In order to ensure that the regulations enforced by the CFTC are reflective of the needs of the industry and the public, the Commission reviews and adapts its regulations with the evolving conditions and changes in the industry.

Relationship of Long-term Goals to Annual Performance Goals

The US exchanges will continue to develop new futures and option contracts to enhance risk management in both the financial and physical commodity sectors. Innovations in technology also will play a significant role in how the Commission responds to developments in the marketplace in the US and abroad.

- By 2002, the Commission anticipates that there will be nearly 300 actively traded futures and option contracts requiring surveillance and analysis. At the same time, both off-exchange derivative trading and exchange-traded derivatives will grow in size and complexity. New and existing US exchanges will list new products for trading in their efforts to compete with foreign exchanges and to meet the hedging and price discovery needs of firms participating in the growing electronic business-to-business marketplace. Many of these new contracts will be traded only on electronic systems or through simultaneous electronic and open outcry trading. Industry efforts to integrate financial cash market trading and OTC derivative trading through common electronic trading platforms or other mechanisms will increase the importance of a surveillance effort that examines the relationship between futures and option contracts and the underlying commodity or market instrument.
- By 2002, the Commission anticipates it will produce 40 special analyses and over 2,000 weekly surveillance reports.
- In FY 2000, the Commission introduced its reengineered computer system that supports market surveillance, replacing the mainframe system with a client-server system. Enhancements to that system

will continue into FY 2001. The anticipated growth in US futures and option trading will increase the volume of surveillance data that must be processed by this system. The number of line items of data is expected to grow from 49.9 million in FY 2000 to 55 million in FY 2002. Additional staff time will be devoted to assuring that these data are received and processed in an accurate and timely manner. Surveillance staff also will continue to spend considerable time testing and modifying, as appropriate, enhancements to the core elements of the new surveillance computer system.

- The number of innovative contracts being proposed will continue. Commission staff estimate that 70 will be introduced for trading in FY 2001. Projections are based on the structural changes in the industry, the advancement of technology, and the use of the Internet, which lowers the cost of developing new exchanges and allows for a wider array of novel products to be offered for trading. New business-to-business exchanges are expected to establish new derivatives contracts in a wide array of products and services. The projections also are based on the rate of submission of new contracts in recent years along with indications that the existing exchanges, as well as new entrants, will continue to make innovative proposals — particularly with regard to contracts based on currencies; foreign stock indexes; fixed-income securities issued by foreign governments; and new concepts in futures in non-traditional commodity areas, such as contracts in the environmental and weather areas, electricity, and contracts based on various non-equity indexes, such as bankruptcy futures.
- Exchanges and new entrants are expected to continue to explore the possibility of establishing new contracts in the traditional agricultural and natural resource commodities to meet newly defined, unmet hedging needs and potential changes in government programs and regulatory requirements. The Commission also anticipates an increase in the number of exchange submissions for rule changes to update existing futures contracts so that they conform with changing cash market practices as well as changes in government programs and regulations. Many of these submissions will involve significant changes to existing rules to reflect ongoing changes in cash market practices for many tangible commodities.
- The rapid growth of derivative markets has dramatically increased the potential impact of derivatives on the stability of international and domestic financial markets. Derivative risk management and risk-based capital requirements are the major tools to maintain the financial integrity of futures and option markets and reduce systemic risk of the financial markets. In FY 2001, Commission staff will examine risk management and risk-based capital issues such as: research on analytic models for analyzing, measuring, and monitoring futures market risk and liquidity risk, and major issues in implementing a market risk measurement system; and alternative models on risk-based capital requirements and quantitative methods in evaluating the adequacy of capital requirements.

COMMODITY FUTURES TRADING COMMISSION
STRATEGIC PLAN

- The growth in both exchange and off-exchange trading volume in derivatives will require increased input as complex economic issues are researched and defined.
- The Commission will continue to monitor and to take any necessary action with respect to major market moves and to identify, deter, and address disruptive or potentially disruptive situations.
- The Commission will continue to examine the alternative execution procedures in futures markets, including: comparison of the liquidity of open-outcry systems versus electronic trading systems with supporting details on related economic theories and empirical evidences; review of futures market fragmentation and integration concentrating on market liquidity and volatility, market efficiency, and market integration; and study of the economics of block trading in futures markets.
- The Commission will enhance the technical and systems capacity of the risk assessment program to review proprietary risk management systems. The risk assessment program can be expected to become increasingly important to the Commission's regulatory responsibilities.
- The Commission will work with self-regulatory organizations (SROs) to assess their preparedness for certain market scenarios, such as substantial price adjustments in equities or agricultural price volatility as a result of natural events or extreme changes in supply and demand.
- The Commission will continue to respond to emergencies and disruptive activities and to develop appropriate, innovative, and pragmatic general responses to problems, including conducting stress tests with domestic and international exchanges and regulatory authorities.
- The Commission will deal with increased participation by regulated firms in emerging markets, changes in the markets that link cash and derivatives (on-exchange and off-exchange), and cross-border trading.
- The Commission's work through its three advisory committees (Agriculture, Technology, and Global Markets) and the President's Working Group and its staff Steering Committee will increase in response to the growing complexity of the marketplace.
- Coordination will be required with foreign regulators on issues such as accounting, capital, market surveillance, and financial compliance, focusing in particular on linkages, full service financial firms, and new product lines.

Goal Two – The Market Users

Protect market users and the public.

Description

A core part of the Commission's mission is to protect the public from fraud and abusive practices related to the sale of futures and options and to prevent fraudulent trade practices and other abusive market practices.

To that end, the Commission conducts an ongoing oversight program related to screening market professionals for fitness and assuring that exchanges have appropriate affirmative compliance programs to investigate market activity for fraud and unsound financial practices and to assure the redress of customer complaints.

The Commission also defines disclosure standards, particularly for managed investments, to assure that the public is appropriately and consistently informed of the risks of futures and option trading. Collective investment funds are the principal vehicles for access of retail investors to the marketplace.

Commission staff participate in the Registration Working Group (RWG), which is composed of CFTC and National Futures Association (NFA) representatives and considers issues concerning registration of futures industry professionals. The RWG was created as a means for CFTC and NFA to share ideas and concerns about issues that are not tied to any specific pending registration case.

The activities of the RWG supplement the formal oversight reviews of NFA's registration program, which involve inspection of records and interviews with NFA staff, as well as numerous informal contacts between NFA and CFTC staff on a weekly basis concerning specific issues and cases.

Commission staff also protect traders both large and small and the retail public through the investigation and prosecution of fraud in connection with futures and options trading. Matters in this area involve fraud committed by registered and unregistered commodity trading advisors (CTAs), commodity pool operators (CPOs), introducing brokers (IBs), and futures commission merchants (FCMs), as well as unregistered boiler room operators selling illegal off-exchange futures contracts. Many fraud cases involving sales to the retail public have concerned false or misleading advertising disseminated through mass media such as radio, television, and the Internet.

To deal effectively with fraudulent practices, the Commission's enforcement efforts include a "quick-strike" ability – the ability to file injunctive actions quickly after detecting fraud – in order to obtain timely injunctive relief and to enhance the possibility that customer

funds and records reflecting wrongdoing are recovered. The Commission also issues consumer advisories warning the public of current trends in fraudulent conduct involving futures and option trading.

The Commission sanctions violators and informs the public and the industry concerning allegations of wrongdoing and associated legal actions, including through publications and through Commission orders and reports describing the alleged violations and the Commission's legal policy analysis. The Commission operates a civil monetary penalty collection program to assure the vigorous pursuit of delinquent collections.

The Commission also maintains strong cooperative enforcement relationships with domestic and foreign authorities to supplement its ability to detect and investigate fraud.

Strategies for Achieving the Goal of Protecting Market Users and the Public

Oversee the NFA's registration program –

The Commission oversees the NFA's registration program, requiring testing, licensing, and ethics training for commodities professionals. CFTC maintains a strong working relationship with the NFA including joint representation on the RWG.

Monitor media –

The Internet and other media are monitored for fraudulent activities and other possible violations of the Act.

Maintain cooperative relationships –

Strong working relationships with the exchanges, the NFA, other federal agencies, state governments and law enforcement entities, and foreign authorities maintain the Commission's ability to gain information for law enforcement purposes and to provide enforcement assistance as necessary and appropriate.

Investigate and prosecute wrongdoing –

The Commission identifies and investigates possible fraudulent and other illegal activities relating to the commodity futures and option markets and their registrants and brings enforcement actions as necessary.

Inform the public concerning violators –

Allegations of wrongdoing and associated legal actions are publicized and communicated to the industry and the public in order to ensure informed market users.

Provide a forum to bring complaints –

The Commission provides a reparations program for commodities market users to resolve complaints concerning possible violations of the Act.

Review regulations and amend or abolish as appropriate –

In order to ensure that the regulations enforced by the Commission are reflective of the needs of the industry and the public, the Commission reviews and adapts its regulations with the evolving conditions and changes in the industry.

Relationship of Long-term Goals to Annual Performance Goals

- Work will continue to oversee the NFA's fitness program through formal reviews of the program, informal staff contacts, and meetings of the RWG.
- The Commission will review rules and other guidance provided to the industry to assure that protection of customers and the marketplace is maintained and enhanced where technology permits, as the pace of technology quickens.
- The Commission will work with the industry to attempt to develop changes in minimum financial and related reporting requirements or to provide other guidance as appropriate. In connection with such efforts, the Commission will modify oversight programs to address any changes in the way market and credit risk are assessed pursuant to the relevant capital rules. Another aspect of the review of capital oversight is an examination of the oversight program addressing firms' risk assessment and internal controls.
- The Commission will continue to address special issues posed by hedge funds, including potential systemic risks posed by such funds at times of market volatility. Commission staff will also continue to: directly review the disclosure documents of publicly offered commodity pools; conduct oversight reviews of regulatory programs conducted by NFA; review the NFA program for inspection of CPO and CTA disclosure documents provided to potential investors and clients by CPOs and CTAs; conduct periodic reviews of NFA's audit programs for CPOs and CTAs as well as NFA's programs for FCMs, IBs, and branch offices; conduct horizontal reviews across SRO programs to address critical elements of SRO programs and to assess the overall quality of SRO programs; and review NFA's program for oversight of industry marketing, including telemarketing.
- Commission staff will develop procedures to review the self-regulatory programs of new electronic markets, particularly the marketing, disclosure, and reporting compliance programs of these markets. This will be added to the current oversight of existing exchange compliance programs. The staff will conduct selected FCM, CPO, CTA, and IB audits to test self-regulatory programs.

- Commission staff will continue to review all customer complaints received by the Commission as part of the effort to determine if customer protection issues arise in connection with new markets and new products offered on new and existing markets.
- Commission staff will continue to confer with NFA on marketing issues, and such coordination may become more critical in the event NFA takes on additional audit responsibilities for existing and new exchanges.
- The Commission will devote significant enforcement resources to investigate and prosecute matters involving fraud related to: unregistered CTAs, CPOs, IBs, and FCMs; individual registrants; and mass media solicitations of unsophisticated customers, including false advertising.
- The Commission will increase surveillance of mass media as required by industry growth, increased complexity of trading strategies, and advances in technology. Other trends that may require a response include the enhanced ease of access to a wider customer base and the increased volume of pooled and managed money flowing into the industry.
- The Commission is dedicated to maintaining its cooperative enforcement activities, both domestically and internationally. The relationships that have been forged with federal, state, and local authorities have been invaluable to fulfilling the Commission's law enforcement mission. The Commission will continue to work with and rely on its growing relationships with foreign authorities, negotiating additional information-sharing arrangements as required to obtain and maintain comprehensive investigatory powers.
- The Commission will collect civil monetary penalties assessed and turn over to the US Treasury delinquent debts for cross-servicing, administrative offsets, and wage garnishments in accordance with both the Debt Collection Improvement Act of 1996 and the letter of agreement between the Commission and the US Treasury. The Commission may also, in appropriate cases, continue to refer delinquent debts directly to the Department of Justice (DOJ) to enforce collection. The Commission will monitor the progress of each such case.

Goal Three – The Environment

Foster open, competitive, and financially sound markets.

Description

The concept of self-regulation is central to the Commission's mission. Oversight responsibilities encompass monitoring the compliance by US futures exchanges and the NFA with their responsibilities under the Commodity Exchange Act. The Commission is charged with developing and maintaining an effective, flexible regulatory environment. SROs must provide for the fair and appropriate treatment of persons and entities that participate in their markets. New programs and increasingly innovative linkages between US and offshore markets, as well as cash and futures markets, must be monitored to maintain appropriate customer and market safeguards without imposing undue burdens or adversely affecting equitable access to the marketplace. The Commission must oversee the protection of market users and financial intermediaries in the areas of financial adequacy, sales practice activities, and the safeguarding of customer funds.

International responsibilities include coordination of policy with foreign market authorities in order to stay abreast of the rapidly changing and expanding global trading environment increasingly linked by common products, customers, and innovative trading systems. The globalization of the markets, the blurring of distinctions among financial institutions, and the explosive growth of technology have made it essential that the Commission's rules are appropriately adapted to market conditions.

Strategies to Achieving the Goal of Fostering an Open, Competitive, and Financially Sound Market Environment

Maintain a flexible regulatory environment responsive to evolving market conditions –

In an effort to ensure that the regulatory scheme under which futures and option contracts are traded remains current, Commission staff will continue to review the Commission's rules with the intention of: eliminating obsolete rules; streamlining and coordinating regulations across markets; and fostering efficiency and competitiveness while assuring customer protection, sound financial practices, and market integrity. The Commission will also respond to requests for exemptions and other relief from regulatory requirements to address situations in which additional flexibility is warranted. The Commission also will issue advisories and other guidance concerning the application of Commission regulations.

Conduct financial surveillance –

The Commission's financial surveillance and audit program buttresses periodic audit, daily financial surveillance, and other self-policing programs administered by the exchanges and the NFA. The program

includes oversight reviews of the SRO financial compliance programs as well as quality control audits to assess the efficacy of SRO programs and to assure that they are designed and executed in a manner that ensures that firms are properly capitalized and customer funds are held in segregation by appropriate custodians and protected from misappropriation.

Enhance risk assessment –

To address changes in the operations and structures of multinational, multi-product financial firms, the Commission has implemented a risk assessment program by obtaining better information on such firms in the form of required organizational charts and internal control filings, consolidated and consolidating financial statements, identification of other regulators to whom such firms report, and descriptions of procedures in place to control risks associated with clearing of trades for affiliates of the regulated firm.

Develop global cooperation to enhance financial safeguards –

Internationally, recent market issues with global market impact have underscored the importance of developing international standards of best practice. The Commission has increased its efforts to achieve greater international coordination and thereby enhance the effectiveness of financial safeguards applicable to US markets and market participants, as well as those applicable internationally.

Oversee SRO compliance activities –

A key aspect of the Commission's oversight program is to review the SRO programs that are designed to assure compliance by their members with customer and market protection standards. The reviews focus extensively on exchange programs to deter, detect, and impose disciplinary sanctions upon those who commit trade practice abuses.

Review SRO rule submissions –

New rules and rule changes submitted by the exchanges to the Commission are reviewed with a view towards maintaining the fairness and financial integrity of the markets, protecting customers and accommodating and fostering innovation and efficiency in self-regulation consonant with the Commission's statutory mandates. Many of the rule submissions present complex new trading procedures, market structures, and financial arrangements that present novel issues and, in some cases, require rule amendments or interpretations by the Commission to facilitate implementation of the SRO's rule changes. The Commission will seek to adapt its approval requirements to ensure, when appropriate, quicker implementation of rule changes.

Respond to globalization of the markets –

Electronic technology is rapidly integrating the nation's global commodities markets. These technology-driven changes will increase cross-border trading volume, cross-border participation, and cross-

border exchange linkages. Markets, intermediaries, and customers demand efficient access to these global markets with a minimum of regulatory borders.

Because no one regulator will have the information or geographic reach to address regulatory and practical issues related to cross-boarder access, the Commission will increase its cooperative efforts with global regulators.

Investigate and prosecute wrongdoing –

In order to foster open, competitive, and financially sound markets, the Commission investigates and brings enforcement cases involving trade practice abuses, financial, capitalization and segregation violations, and supervision and compliance failures by registrants authorized to handle customer business.

Relationship of Long-term Goals to Annual Performance Goals

The Commission will maintain or improve its programs to assure sound financial practices, effective self-regulatory programs, a flexible regulatory framework responsive to market developments and markets free of trade practice abuses and other wrongful conduct. These programs will face increased demands due to the growing complexity of market structures and product innovations in an increasingly global marketplace and increasingly interconnected exchanges and over-the-counter (OTC) markets. These developments require enhanced oversight activity to review complex new structures, to assure adequate financial protections and to revisit and revise regulatory requirements to accommodate innovation consistent with protecting the interests of the public.

- The Commission will continue to undertake a broad review of its regulations and their effect on the competitiveness and efficiency of derivatives markets. Over the past decade there have been significant advances in the development and use of derivative instruments, including futures and option contracts, as well as in the trading platforms on which these instruments are executed. In an effort to ensure that the regulatory scheme under which these contracts are traded remains current, the Commission has undertaken a broad review of its rules with the intention of eliminating obsolete rules and streamlining and coordinating regulations across markets. The Commission will consider comments from the public and interested parties on “A New Regulatory Framework” published in the *Federal Register* on June 22, 2000 as proposed rules to implement the staff recommendations. The comment period on those rules ended on August 21, 2000, following a 15-day extension of the original deadline.
- The Commission will continue to perform reviews of exchange financial surveillance programs, conduct direct audits, process risk

assessment filing by FCMs, and review financial reports from firms and market professionals.

- The Commission is continuing its efforts to further develop and implement new enhancements to electronic filing programs that increase efficiencies in the transmission and storage of electronic data. After extensive testing, the Commission has found electronic filing to be reliable and efficient for the receipt, processing, and review of financial report data. In this connection:
 1. Approximately 80 CME- and CBT-member FCMs now file financial reports electronically with the Commission's three regional offices, in New York, Chicago, and Kansas City.
 2. The Commission has tested electronic filing with about 15 FCMs whose DSRO is NYMEX. Testing has progressed well, since NYMEX uses the same electronic software as does CME, CBT, and the Commission. The Commission intends to notify these FCMs in late October that they can cease filing paper copy reports.
 3. The Commission is also working to implement electronic filing for FCMs for which NFA is the DSRO. Currently, about 100 FCMs file financial reports with NFA, using both paper and electronic filings. NFA has developed its own, unique electronic filing system. Many of NFA's FCM member continue to file paper copy financial reports, which NFA staff keypunches into its financial report database. The Commission will continue to work with NFA in developing workable routines for it to convert and transmit to the Commission electronic data which is compatible with the financial report data which the Commission receives from member-FCMs from other exchanges. Additional unresolved issues center around a workable PIN signing process, and custody and safekeeping of the "official" financial report. The Commission intends to work with NFA to relieve NFA's member-FCMs of filing duplicative financial reports with both NFA and the Commission.
 4. The Commission is exploring strategies for allowing IBs to file their unaudited financial reports solely with the NFA, to relieve the duplicative filing burden. NFA has tentatively agreed to give the Commission routine updates to their IB financial report database so that timely IB financial data would be routinely available to Commission staff. The Commission anticipates that IBs will continue to file copies of their annual audited reports with both the Commission and NFA.
- The Commission will devote increased resources to the oversight of OTC derivatives products and the risks posed to registrants by their unregistered OTC trading affiliates due to the expected market trends and in order to continue to achieve the goal of preventing loss to futures and option customers.

- In June 1999, the Commission proposed amendments to Rule 1.41 to increase the number of exchange rule changes that can become effective immediately and those that may go into effect within three days or ten days of submission to the Commission. The proposed procedures also will permit exchanges to reduce significantly the number of filings of rule changes they are required to make to the Commission. In a *Federal Register* release published on November 26, 1999 (64 FR 66428), the Commission sought comment on a proposal to revise its procedures for the review of contract market rules and rule amendments.

Under the proposed revision of Regulation 1.41, which has been incorporated in the Commission's new regulatory framework, a rule of an RFE (except for terms and conditions of contracts on commodities enumerated under Section 1(a)(3) of the Act) could be placed into effect on the business day after the Commission had received a submission for the rule. There would be no delay in the implementation of the rule to allow for prior Commission review. The submission for the rule would have to include: 1) the text of the rule or amendment, with redline, as applicable; 2) a brief explanation of the rule; 3) a description of any substantive opposition; and 4) a "certification" that the rule is not inconsistent with the Act or with Commission regulations. To ensure that a board of trade seeking initial designation as a contract market would continue to undergo detailed analysis, the process could be used only by a contract market with at least one non-dormant contract.

- The Commission will continue to face an increasing number of important issues concerning the impact of technological changes on methods of transacting business on futures exchanges and a proliferation of designation applications for new electronic futures exchanges. The Commission has had before it a number of different issues that are representative of the developments in electronic trading, for example:
 1. Merchants' Exchange of St. Louis. The Commission designated by orders dated July 10, 2000, the Merchants' Exchange of St. Louis, L.L.C. (MESL) as a contract market for the automated trading of deliverable Illinois Waterway and St. Louis Harbor barge freight futures contracts. MESL had not previously been approved by the Commission as a contract market in any commodity. MESL transactions will clear through the Board of Trade Clearing Corporation.
 2. FutureCom. The Commission designated, by order dated March 13, 2000, FutureCom, Ltd. (FutureCom), a Texas limited partnership owned by the Texas Beef Group, as a new contract market for the automated Internet-based trading of cash-settled live cattle futures and option contracts. FutureCom is unique in that it is the first Internet-based futures exchange and every member is its own clearing member. FutureCom was approved to be its own clearinghouse while outsourcing certain clearing and

settlement functions to a local bank pursuant to a cash settlement agreement. Staff are currently reviewing FutureCom's proposal of an alternate clearing bank for this purpose and will be monitoring the fulfillment of various conditions FutureCom must meet under the designation orders before commencing operations.

3. BrokerTec Financial Futures Exchange. Commission staff are reviewing an application filed on May 8, 2000, by BrokerTec Futures Exchange, L.L.C. (BrokerTec) for designation as a fully automated contract market in short, medium, and long-term US Treasury Bond Futures Contracts. The application provides that membership would be open internationally, based on such criteria as assets, capital, and creditworthiness.
4. CBT-Eurex Alliance Rules. On August 22, 2000, Commission staff notified CBT that it could make effective immediately, without Commission approval, CBT's new rules for "e-cbot," a new trading platform using technology adapted from the electronic trading system employed by Eurex Deutschland, which is replacing the CBT's existing electronic trading system, Project A, as part of a strategic alliance between CBT, Eurex, and other affiliates. Users will be able to access e-cbot or Eurex through the same front-end application and terminal. The CBT submission reviewed by staff included rule changes, new implementation regulations, changes to the trade-matching algorithm, and revised surveillance arrangements.
5. CME Foreign Cross-Exchange Trading. Commission staff allowed into effect a rule proposal from the Chicago Mercantile Exchange (CME) permitting link arrangements with various foreign exchanges (in addition to Marché à Terme International de France (MATIF), with which CME already had such an arrangement). Under the new rules, members of CME and a linked foreign exchange will be able to trade not just cross-exchange contracts listed on Globex, but all products accessible on either exchange's automated trading system.
6. Placement of NYMEX ACCESS Terminals in Singapore. On May 1, 2000, Commission staff notified the New York Mercantile Exchange (NYMEX) that its proposed linkage with Singapore Exchange Derivatives Trading Limited (SGX-DT) for the purpose of trading on NYMEX ACCESS, its automated electronic trading system, was approved and could be made effective immediately. ACCESS terminals are now located in England and are linked with SGX-DT, Sydney Futures Exchange (SFE), and Hong Kong Futures Exchange (HKFE). All linkages were approved under substantially similar qualifying factors.
7. Updated Version of NYMEX ACCESS Automated Trading System. Commission staff allowed into effect the most recent version of

NYMEX ACCESS, the NYMEX electronic trading system, developed to update the old ACCESS electronic trading system originally approved by the Commission in 1992. The new version of ACCESS includes a “credit checking” function, allowing clearing members to take a more proactive approach to handling the financial risks associated with the trading activity of the accounts they clear, expanding the protections of NYMEX ACCESS. The new version expands the system’s “reasonability checks” function, which protects system users against inadvertent errors in order entry and expands capacity and other available functions.

8. CX Proprietary Trading Program. Commission staff notified Cantor Fitzgerald Financial Futures (CX) that it would allow into effect a proposal to permit proprietary trading by a CX affiliate, CF Entity. The action was based on CX representations concerning the erection of a “Chinese Wall” between CX and any CF Entity before proprietary trading could be carried out.
 9. Automated System for Buying and Selling Electric Power. Staff issued a no-action letter permitting the operation and use of an automated system for buying and selling electricity for delivery in the future, without the system operator obtaining contract market designation pursuant to Section 5 of the CEA. The system enables commercial entities that meet specified eligibility requirements to buy and sell electricity for on-peak hours in one-month blocks, up to 12 months in advance of delivery. The relief was granted unconditionally.
- The Commission will consider possible revisions of the Commission’s capital rules for FCMs and IBs so that such firms, the exchanges and clearing organizations can continue to operate efficiently, while maintaining a capital cushion sufficient in light of concentrations of market risk and other risks.
 - The Commission will continue its efforts to work with international organizations and bilaterally to encourage: the facilitation of cross-border transactions through the removal or lessening of unnecessary legal or practical obstacles; the development of internationally accepted regulatory standards of best practice; the enhancement of international supervisory cooperation and emergency procedures; the strengthening of international cooperation for customer and market protection; and improvements in the quality and timeliness of international information sharing.

Achieving The Goals: Strategies to Mission Performance – 2000-2005

The Challenges

The environment in which the Commodity Futures Trading Commission operates and works is dynamic. Futures and option markets are fluid. New products, as well as changes in terms and conditions of existing contracts, are common. Increasing globalization of the financial markets also presents challenges and opportunities to the agency's mission performance.

Accomplishing the Commission's mission will require a commitment to assess continually the external and internal issues and trends that may affect the mission and the way in which we must respond to meet it successfully. Evaluating and adjusting the strategic plan will ensure that potential problems or weaknesses are managed before they develop into crises.

The Strategies

To fulfill its commitment, the Commission must develop and employ various strategies which focus on achieving results. These strategies will define the basis for developing policies, making decisions, taking actions, allocating resources and defining program direction. They will clarify why the organization exists, what it does, and why it does it—providing a bridge to understanding how the Commission connect to its environment.

Achieving The Goals: External Challenges – 2000-2005

The External Challenges

The Commodity Futures Trading Commission faces challenges external to the organization which may significantly alter its ability to meet its goals, its outcome objectives, and even its mission, depending on the weight of their influence and the timing of their occurrence.

We have identified eleven such factors that may impact strategic planning at the CFTC.

The advancement in technology – continues to introduce challenges in many areas: alternatives to the “open-outcry” method of trading commodity futures on the exchange floor; enhanced methods for timing and tracking trading transactions; on-line filing of financial information by market users; electronic marketing and trading of financial and risk-hedging products; and trading commodity futures and options on a global, 24-hour real-time basis.

The volume of trading on exchanges – as represented by the doubling of growth (from 334 million to 614 million contracts) in the last decade. The CFTC must monitor the increases in volume and the complexity of trading activity in order to ensure that market users are able to trust the safety, fairness, and transparency of trading on the US exchanges.

Innovation in the marketplace – as represented by the continuing growth in the number of actively traded contracts on US exchanges – nearly triple the number available just a decade ago. In the last decade 479 new futures and option contracts were approved. In FY 1999 alone, the Commission approved 73 applications for new futures and option contracts, 30 of which were submitted under fast-track procedures. Innovative new contracts approved include weather-related futures and option contracts based on the heating degree days and cooling degree days for 10 cities.

Growing managed funds – as evidenced by the spectacular increase in funds committed to professional management from \$115 million in 1975 to nearly \$44 billion today. The CFTC regulates CPOs and CTAs. Funds under professional management include a growing number of pension and mutual funds, which warrant continued oversight by the Commission to ensure the protection of these customer funds.

The growing use of OTC derivatives – there have been significant advances in the development and use of derivative instruments, including futures and option contracts, as well as in the trading platforms on which these instruments are executed.

The globalization of financial markets—as evidenced by the extraordinary increase in electronic trading systems and Internet trading—allowing markets to respond to information and the needs of their users 24 hours a day. Today, world futures and option markets are inextricably linked. In this rapidly developing global market, US futures markets must retain their world leadership.

The number and sophistication of market users—including the increasing number of institutional users trading as fiduciaries.

Events that destabilize the commodity markets—such as the 1987 stock market break, the 1995 collapse of Barings Bank, and the copper market events precipitated by the Sumitomo Corporation in 1996 and the near collapse of the Long Term Capital Management fund in September 1998.

The effect of federal laws and policies—on the US economy, such as the deregulation of the energy industry and changes in farm subsidy policies, spawning change and innovation, such as new types of crop insurance as well as structural changes permitted in the financial services industry, such as the diversification into overseas markets and the convergence of the securities, commodities, insurance, and banking industries.

The standards, resources, and priorities of other organizations and jurisdictions—such as SROs, other federal and state law enforcement agencies, and foreign authorities.

The Strategies to Overcome External Challenges

Develop a Responsive and Flexible Regulatory Posture –

It is not possible to predict which external influences ultimately will affect the commodity futures and option industry over the next five years. However, the trends first observed three years ago are likely to continue. In order to fulfill its goal of being a flexible and responsive regulatory body, the Commission must develop strategies to ensure that it develops the appropriate reactions and responses to these trends.

Innovation

- Respond to innovation through the timely review of new and novel trading instruments and trading platforms.
- Develop a capability of understanding the underlying economic effects and benefits of new product development, new markets, and new complex trading mechanisms.

Globalization

- Maintain watchful surveillance activities to monitor systemic risk of expanding markets, intermarket linkages, and cross-border trading systems.

- Foster and sustain strong relationships with foreign authorities to ensure rapid communication and responsive actions in the event of global financial uncertainty.
- Participate in international efforts to standardize worldwide market surveillance and information-sharing practices and to facilitate cross-border transactions through the removal or lessening of unnecessary legal or practical obstacles.

Competitiveness

- Consider refinements to the regulatory framework to take into account the growing use of OTC derivatives – particularly fostering economic efficiency and competition by establishing clear legal certainty for OTC derivatives.
- Respond to structural changes in the financial services industry to ensure a level playing field as the commodities, securities, and banking industries become more integrated.

Dynamic Economic Forces

- Monitor general economic events and trends in order to understand dynamics affecting commodity futures and option trading.
- Consider the need to mitigate systemic risk in the rapidly growing OTC markets by encouraging developments such as clearinghouses.
- Respond to the changing needs of the US agricultural community resulting from the passage of the Federal Agricultural Improvement Reform (FAIR) Act of 1996 and the changes it will spawn in this sector of the US economy.
- Develop an automated market surveillance system capable of collecting and assimilating data from option trading as well as commodity futures trading.
- Respond rapidly and effectively to destabilizing events, either in the US markets or in the global marketplace, to ensure the protection of US interests and customers.
- Monitor the increasing volume of the public's funds invested either directly or indirectly through commodity pools.

Advancing Technology

- Develop capability of overseeing rapidly evolving technological changes and innovations influencing the markets – electronic trading mechanisms, increasingly linked trading relationships, real-time trading, electronic commerce, expansion of the Internet, and other advancements.
- Ensure that the Commission has state-of-the art computing power to collect and analyze the increasing volume of data generated by the commodity futures and option markets.

The Commission's proposed "new regulatory framework" is the principal Commission strategy for meeting present and future external challenges. The framework is designed to be a flexible structure that proposes to replace the current "one-size-fits-all" approach to regulation. While the framework is still a work in progress, and has not been adopted by the Commission, it is generally representative of the Commission's strategic vision. The proposed framework (summarized in Table 1) promotes innovation, maintains the competitive position of American markets, reduces systemic risk and provides the necessary level of customer protection. It accomplishes these goals while preserving the public interest in market and price integrity, and protection against market manipulation. In brief, the framework establishes three kinds of trading facilities, each of which would be subject to varying levels of Commission oversight.

The degree of oversight applicable to each kind of facility would depend on the nature of the commodities traded on it and the sophistication of the market's participants. The framework also replaces prescriptive rules with flexible "core principles." (A complete set of proposed rules that comprise the "new regulatory framework" can be found on the Commission Web site at:
<http://www.cftc.gov/foia/fedreg00/fedreg00.htm#ret000811a>)

| Market Type | Characteristics | Requirements |
|--|--|---|
| Recognized Futures Exchange (RFE) | 1. Any commodity 2. Any trader | 15 Core Principles |
| Recognized Derivatives Transaction Facility (DTF) | 1. Only commodities with: a) Foreign currency, interest rate, credit risk, a contingency, or cash settled with no underlying cash market; or b) Individual contracts on a case-by-case basis. OR 2. Only commercial traders (but no enumerated agricultural products). | Seven Core Principles |
| Exempt Multilateral Transaction Facility (Exempt MTEF) | 1. Only commodities with: a) Foreign currency, interest rate, credit risk, a contingency, or cash settled with no underlying cash market; or b) No underlying cash market AND 2. Only institutional traders. | 1. Anti-fraud section of the CEA 2. Anti-manipulation section of the CEA 3. May not hold self out as regulated. |

Table 1

The proposed rules would update the Commission's regulatory approach in three areas: 1) regulation of exchanges or execution facilities; 2) regulation of intermediaries; and 3) regulation of clearing

organizations. The reform envisioned by the Commission is highlighted by the following:

- Exempt Multilateral Transaction Execution Facility, Derivatives Transaction Facilities and Recognized Futures Exchanges (Parts 36, 37, and 38). Proposed Parts 36, 37, and 38 constitute the new regulatory framework proposed by the Commission for multilateral transaction execution facilities. These proposed Parts offer entities some choice in the degree of Commission supervision by being exempt multilateral transaction execution facilities (exempt MTEF), derivatives transaction facilities (DTFs), or recognized futures exchanges (RFEs). The rules would also set out core principles that rely on performance standards rather than prescriptive rules to guide DTFs and RFEs in establishing their self-regulatory framework. Facilities eligible to operate as exempt MTEFs would be exempt from regulation by the Commission, except for anti-fraud and anti-manipulation sections of the Commodity Exchange Act.
- Recognized Clearing Organizations (Part 39). The proposed rules also include a new Part 39 regulatory framework for clearing organizations. The framework would allow only recognized clearing organizations (RCOs) to clear transactions effected on designated contract markets, RFEs, or DTFs. It would permit either RCOs or clearing organizations supervised by a federal financial regulator or by a foreign regulator to clear transactions executed on exempt MTEFs or pursuant to the Commission's proposed exemption for bilateral transactions (Part 35).
- Intermediaries. The reform package also proposes to streamline many of the requirements applicable to intermediaries. These proposed changes include the use of more flexible and less prescriptive rules and relaxation of certain other requirements. Specifically, the Commission is proposing to: 1) expand the range of instruments in which FCMs may invest customer funds; 2) simplify registration procedures for FCMs and IBs operating exclusively on recognized DTFs for institutional customers; 3) eliminate the required submission of a certified financial report as part of FCM or IB registration procedures; 4) replace the required ethics training for Commission registrants with a Statement of Acceptable Practices; 5) amend the definition of "principal" in Rule 3.1(a) to exclude certain officers of a firm; 6) simplify account opening procedures by permitting a single signature for all documents (except for a pre-dispute arbitration agreement in the case of a non-institutional customer) and eliminate the prescribed disclosure statement delivery requirement for governmental entities; 7) codify a previous interpretation permitting electronic transmission of account statements; and 8) give greater customer choice concerning the close-out of offsetting positions.
- Over-the-Counter Instruments. In addition to the above reforms, the Commission has proposed amendments to its exemption for swap transactions (Part 35). Proposed changes to Part 35 of the

Commission's rules would expand and clarify the operation of Part 35 and permit the clearing of transactions entered into under this part. The proposal would: 1) replace the reference to the term "swaps" with "contract, agreement, or transaction"; 2) eliminate the requirement that these transactions not be fungible or standardized, and 3) insofar as these transactions may be cleared, eliminate as a condition of the exemption the creditworthiness of the counterparty. These proposed amendments to the rules are intended to provide greater legal certainty to the OTC markets and to reduce systemic risk.

Develop and Sustain Vital Partnerships—

Strong working relationships with other organizations and jurisdictions involved not only in commodity futures and option trading, but domestic and international finance and law enforcement, increase the Commission's ability to build knowledge and insight, share information, and participate in developing standard practices and policies.

Federal and State

- A key relationship that ensures regulatory consistency across the federal government is the Commission's participation in the President's Working Group on Financial Markets. This critical forum for coordination of regulation across financial markets brings together the leaders of the federal financial regulatory agencies to consider issues concerning risk assessment, capital requirements, internal controls, disclosure, accounting, market practices relating to trading in derivative instruments, bankruptcy law revisions, and contingency planning for market emergencies.
- Another key federal liaison is with the US Department of Agriculture. Consistent with the mandate of the CEA and the FAIR Act, the CFTC will work with USDA staff in a risk management education effort to reach agricultural producers seeking risk management services or advice to deal with the changes resulting from its passage.
- Commission staff work through various established intergovernmental partnerships to share information and to consult on issues of importance both to the Commission and to other financial regulators. Some meetings are recurring, such as biweekly conference calls and quarterly meetings held among the CFTC, the Securities and Exchange Commission, the US Treasury, the Board of Governors of the Federal Reserve System, the New York Federal Reserve Bank and the Federal Deposit Insurance Corporation. Other inter-governmental partnerships are occasional as needed, but nonetheless valuable, such as those with the Department of Energy, the Department of Agriculture, and the Department of Labor's Bureau of Labor Statistics on other matters.
- The working relationships with other federal law enforcement entities are also fundamental to an effective law enforcement effort. The Commission coordinates its enforcement efforts with agencies such as the Department of Justice, the Federal Bureau of

Investigation, the Federal Trade Commission, the Securities and Exchange Commission, the US Postal Inspection Service and federal bank regulators. The CFTC is also represented on several interagency task forces designed to keep participants abreast of new developments in financial crimes and to coordinate the government's response.

- Enforcement efforts are coordinated with state authorities as well, including state commissions responsible for the regulation of corporations, securities, insurance, and banking.

Self-Regulatory

The NFA has been granted registration by the Commission as a futures association with specific self-regulatory responsibilities under the Commodity Exchange Act. The NFA has existed since 1982 and works in partnership with the Commission to assure high standards for industry professionals. The Commission works closely with the NFA in a variety of areas to augment scarce government resources – registration, ethics training for industry professionals, the review of disclosure documents, sales practice reviews, and financial compliance.

International

In the past several years, the Commission has cooperated with a large number of foreign regulatory authorities through formal memoranda of understanding (MOUs) and other arrangements to combat cross-border fraudulent and other prohibited practices that could harm customers or threaten market integrity. Cross-border information sharing among market regulators forms the linchpin of effective surveillance of global markets linked by products, participants, and information technology. The Commission currently has 19 formal arrangements for the sharing of information on enforcement matters, four arrangements related to financial information sharing, and numerous cooperative arrangements to support program specific matters such as stock under futures no-action letters and the grant of Rule 30.10 exemptive orders.

- A key partnership in the Commission's efforts to remain abreast of global financial issues is its membership in the International Organization of Securities Commissions (IOSCO), an organization of 162 members from 101 countries. IOSCO's main purposes are to provide machinery for exchanging information and expertise between regulatory authorities for the supervision of world securities and derivatives markets, to establish standards of best practice, to ensure market integrity, and to promote effective supervision and enforcement. IOSCO deals with issues affecting both developed and emerging markets.
- The Commission also contributes to the initiatives of the US Treasury Department to encourage global financial stability, such as the financial stability forum.

- The Commission also has provided comment on various regulatory initiatives of the International Monetary Fund and the Organization for Economic Cooperation and Development.

Advisory

The Commission sponsors three advisory committees that facilitate a dialogue between the CFTC and three key groups of interested persons — the American agricultural community, the financial community, and the states.

- The Agricultural Advisory Committee (AAC) represents a vital link between the Commission, which regulates agricultural futures and option markets, and the agricultural community, which depends on those markets for hedging and price discovery. The AAC's 25 member organizations represent a major portion of the American agricultural community. For the last 14 years, the AAC's twice yearly meetings have fostered an ongoing dialogue between that community and the Commission.
- The Global Markets Advisory Committee (GMAC) was created by the Commission in February 1998, for the purpose of obtaining input on international market issues that affect the integrity and competitiveness of US markets and firms engaged in global business. Members of the GMAC consist of 30 individuals representing US futures exchanges, self-regulators, financial and commodity intermediaries, market users, and traders.
- The Technology Advisory Committee (TAC) was created by the Commission in October 1999 to advise the Commission on the impact and implications of technological innovation in the financial services and commodity markets. The TAC is successor to the former Financial Products Advisory Committee. The objectives of the TAC include: 1) assisting the Commission in reviewing emerging technologies utilized by financial services and commodity markets; 2) identifying technology providers for the financial services and commodity markets; 3) analyzing the impact of emerging technologies on the financial services and commodity markets, as well as on the market professional and market user; 4) reviewing the CEA and the regulations promulgated thereunder to assess their applicability to electronic issues and to ensure the Commission's ability to exercise appropriate fraud and manipulation authority; and 5) examining ways that the Commission may respond to the increasing use of technology through appropriate legislative proposals and/or regulatory reform.

Achieving The Goals: Internal Challenges – 2000-2005

The Internal Challenges

Many of the internal challenges identified may not be unique to the CFTC, but nonetheless are possible barriers to success that must be analyzed and met in order to succeed in its mission.

Parity Between Resources and Responsibilities—The Commission's principal resource is its staff. Although staffing levels at the Commission have remained constant during the last decade, there has been an unprecedented growth in the industry it oversees. It is vital that the Commission's financial resources enable it to keep pace with the expected continuation of growth in volume and the profound changes in the industry resulting from novel transactions, new trading systems, new market participants, advances in technology, and the globalization of the markets. Commission resources would be dedicated primarily to maintaining effective enforcement and surveillance oversight. Also, adequate resources are critical to ensuring that the Commission remain responsive to technological developments, business changes, and market evolution so that innovation and financial market growth are not burdened with regulatory inefficiencies and outmoded regulatory structures.

Recruitment and Retention of Qualified and Diverse Professional Staffs—nearly 80 percent of the staff of the CFTC falls into four categories of professional employment: law, economics, financial audit, and futures trading. The complexity of the work at the Commission demands highly skilled workers, many with advanced educational degrees. Competition for these individuals has always been keen, and there is no indication that this challenge will abate. Most federal financial regulators are exempt from Title V pay provisions and are able to offer professionals higher salaries. The Commission is the only federal financial regulator that does not have the authority to pay professionals at premium pay levels.

In some instances, as with lawyers and economists, the Commission has experienced the effects of a "brain drain," when highly talented and skilled employees are hired away from the CFTC by other federal financial regulators who can offer premiums. The Commission's rate of turnover among full-time permanent staff is twice the government average. The rate of turnover among attorneys, the largest group of employees, is nearly 20 percent—a rate three times the government average.

Potential for Significant Numbers of Retirements—the CFTC is in its 26th year of operation. Many of the employees who started with the Commission in its early days are approaching retirement age. Approximately six percent of the CFTC's workforce is presently eligible to retire with full benefits and over 20 percent of CFTC's on-board staff will become eligible for retirement within the next five years. This level

of turnover will require significant levels of recruitment and training, particularly to fill behind the loss of so much “institutional memory.”

Another challenge associated with a significant turnover in staff is the question of reengineering. Allocation of staff resources must be continuously evaluated to ensure that resources reflect the regulatory priorities in the Commission.

Remaining Abreast of Current Technology – perhaps more so than many other federal agencies, the Commission is dependent on a significant level of advanced technology to manage the volume and complexity of financial information it collects and analyzes. Data are voluminous, require timely handling, and must be thoroughly analyzed for anomalies in trading patterns, relationships, and strategies.

Over the years, the Commission has developed and maintained an impressive technological infrastructure and has employed automation when feasible to enhance its work product and to enhance productivity in light of a static level of staffing.

The sophisticated market surveillance and market analysis the Commission performs are accomplished through the use of databases and econometric modeling. Fact patterns for enforcement investigations are supported by computer programs, and many other responsibilities could not be accomplished without the significant level of information technology at the CFTC. The need for this level of support will increase over the coming five years as technology continues to evolve and to offer new capabilities.

Commission staff must be knowledgeable as to current technologies in order to perform adequately oversight of the exchanges as they increase their use of technology. This technological trend has been reflected in the increasing linkage of global markets and the introduction of overnight trading capabilities by major US exchanges linked to foreign counterparts. Advances in technology will improve the ability of the exchanges to handle their work electronically. The Commission must be knowledgeable in these technologies to fulfill its mission of fostering innovation and a flexible and responsive regulatory environment.

Remaining Educated and Informed as Innovation Changes the Industry – it has always been necessary for Commission staff to continue to improve their knowledge of developing economic trends, new trading instruments, trading strategies, and the interrelationship of markets, domestically and internationally. Without such continued investment in skill and information building, they may not be fully capable of understanding the marketplace, the economic influences on it, and its changing needs and uses. This level of skill and knowledge will need to increase over the next five years as new markets emerge around the world and market users seek new hedging strategies.

The Strategies to Overcome Internal Challenges

Strategies to Develop a Responsive Commission Culture –

At the center of the Commission's mission accomplishment are the core business processes and responsibilities. Meeting these responsibilities and performing them well provides an ongoing level of regulatory presence and support to the industry and its users. These core business processes are many and include daily market surveillance, the detection and prosecution of wrongdoing, contract market designation, rule review, market research, and audits of industry firms.

To accomplish the day-to-day activities associated with these processes, the Commission must maintain a positive culture within which to work. Over the next five years, the following strategies will guide us and help us meet the internal challenges we face.

Build a professional and highly trained staff –

- Set standards for the recruitment and retention of a diverse and qualified staff.
- Develop a recruitment and promotion strategy to build a new professional base for filling behind the anticipated high level of retirements in the next five years.
- Provide technical and advanced training to ensure that CFTC staff skills keep pace with advances in the commodities industry and permit promotion to higher levels of responsibility.
- Ensure staff has the necessary research tools to perform productively.

Improve salaries of employees –

- Use all flexibilities and authorities available within Title V, such as offering recruitment, retention, and relocation allowances to the extent limited budgetary resources permit.
- Obtain compensation parity with other federal financial regulators most of whom are exempt from Title V.

Build a strong technological infrastructure –

- Implement the findings of the recently concluded assessment of information resources management at the Commission. The assessment recommended: 1) reestablishment of a priority-setting body consisting of senior operating division managers; 2) major increases in resources (staff and outsourcing) – to assure parity, at a minimum, with other federal government agencies, bringing the Commission more in line with widely accepted industry standards.
- Fully implement and refine as necessary the Commission's largest mission critical systems – the Integrated Surveillance System and the Exchange Database System.

COMMODITY FUTURES TRADING COMMISSION
STRATEGIC PLAN

- Modernize the litigation support system, which is critical to the success of the Commission's enforcement activities.
- Assess the potential application of Web technology to provide Commission staff with full access to all appropriate agency systems.
- Continuously assess and protect the security of the Commission's information technology infrastructure.
- Maintain and enhance expertise capable of overseeing the technological advancements in the domestic and international markets.

Reengineer business processes to streamline regulatory requirements and to create internal efficiencies –

- Continuously identify areas which may benefit from reengineering, to create efficiencies for the regulated industry or for the CFTC's internal processes.

Restructure organizationally to improve performance and respond to changing mandates and trends –

- As warranted, reorganize the internal structure of the Commission to strengthen program initiatives and to reflect changes in Commission rules and regulations and/or statutory changes.
- Improve systematic decision-making that is reflective of Commission goals and priorities through the creation of an Executive Management Council with representation from program, administrative, and regional interests.
- Improve executive management oversight of the Chicago Regional Office by establishing a Deputy Chief of Staff position for the entire Chicago regional office.
- Strengthen the Commission's commitment to Equal Employment Opportunity (EEO) by establishing a separate EEO office reporting directly to the Chairman.

Plan effectively to maximize the use of scarce budgetary resources –

- Continually review resource requirements for operations and program initiatives to ensure sound fiscal management and the optimal allocation of resources to mission requirements.
- Enhance the capability of the financial management system to aid in analyzing inputs and outputs in order to improve the measurement of outcomes at the Commission.
- Make increasing use of the data flowing from the Commission's payroll/personnel system in order to determine how best to use the Commission's most significant resource – staff-years.
- Develop advanced planning skills to assure an emphasis on results-oriented management.

Communicate accountability to CFTC managers and staff –

- Utilize the Annual Performance Plan and Annual Performance Report to improve the communication of specific goals and performance levels to staff to improve Commission performance.
- Provide training at all levels of the Commission so that employees have the skills and current information to enable them to perform at a high level.

Achieving and Measuring Performance

Achieving Performance

The Commission may measure the success of its performance through five broad indicators:

- Market disruptions minimized and responded to swiftly.
- Registered and fit market professionals and financial intermediaries.
- SROs with sound financial practices and effective enforcement programs.
- Swift and aggressive investigation and prosecution of wrongdoing, with sanctions and fines levied for the maximum remedial and deterrent effect.
- Regulations that are effective and responsive to evolving market conditions.

For each specific goal, the desired outcome is met through the accomplishment and measurement of various activities as shown on the next four pages.

COMMODITY FUTURES TRADING COMMISSION
STRATEGIC PLAN

Goal One*: Protect the economic functions of the commodity futures and option markets.

| <i>Desired Outcome</i> | <i>Activities Designed to Achieve the Outcome</i> | <i>Actions Taken to Assure that Undertaken Activities Achieve the Outcome</i> | <i>Measures of Outcome Achievement</i> |
|---|---|--|--|
| Futures and option markets providing risk-shifting and price discovery. | Assess trading activity and participation by traders. Review new products and substantive rule changes. | Send compliance letters on violations of reporting or speculative limit requirements. Conduct research on occurrences or trends of interest and initiate corrective actions as necessary. Approve contract markets which are economically viable. Review pricing in related markets. | Hedging of broad range of business risks in transparent and liquid markets. Futures market prices reflect underlying forces of supply and demand. |
| Disruptive activity in futures and option markets minimized. | Analyze data to detect anomalies such as congestion or price distortion. Prepare special reports on all expiring futures. Respond to market emergencies and major market moves of commodity prices beyond defined levels as they emerge. Audit futures commission merchants to ensure submission of appropriate data on futures and option transactions. | Conduct routine market surveillance and initiate dialogue with parties involved in disruptive activity to ensure activity is unwound successfully. Send information letters. Respond quickly to analyze effect on US interests and global markets and take appropriate action. Require compliance through the issuance of audit reports, following up to ensure that recommendations made and deficiencies cited are corrected. | Efficient and effective responses to market disruptions to minimize market harm (manipulations, price distortions, loss of customer funds, etc.) |
| Deter violations. Violators brought to justice. | Investigate and prosecute wrongdoing. | Conduct investigations in a thorough and timely manner, institute enforcement cases, and refer potential violations to other authorities, as appropriate. Sanction violators and publicize and enforce sanctions. | High level of compliance fostered. Potential violators deterred. |
| Appropriate level of regulation | Review and adapt regulations to the evolving conditions and changes in the industry. | Review regulations and amend as appropriate. | Regulations reflecting needs of the industry and the public. |

*Outcome Objectives and Activities for Goal One shown on page 11.

COMMODITY FUTURES TRADING COMMISSION
STRATEGIC PLAN

Goal Two*: Protect market users and the public.

| <i>Desired Outcome</i> | <i>Activities Designed to Achieve the Outcome</i> | <i>Actions Taken to Assure that Undertaken Activities Achieve the Outcome</i> | <i>Measures of Outcome Achievement</i> |
|--|---|--|---|
| Registered market professionals (registrants). | Audit NFA registration and disclosure review program. Participate in Registration Working Group meetings. | Issue audit reports to NFA, require compliance with recommendations, and work with NFA to correct problems identified in audits. | Market professionals registered as appropriate. |
| Market users capable of determining if market professionals handling customer funds are registered and have reputable history. | Publish Sanctions-in-Effect Lists. NFA DIAL System. Publish Commission opinions, press releases, and reports on investigations. | Maintain current lists. Ensure NFA maintains current system. Publish information in a timely fashion and use CFTC home page for broad distribution. | Informed market users. |
| Registrants' providing full disclosure of risks of trading commodity futures and options. | Review disclosure documents of CPOs and CTAs. | Issue deficiency letters to CPOs and CTAs and follow-up to ensure compliance. | Disclosure documents meet requirements. |
| A forum for market users to present complaints concerning possible violations of the CEA by registrants. | Process complaints and resolve through settlement, informal voluntary proceedings or formal adjudicatory proceedings. | Process complaints in a timely fashion and sanction firms found to have violated the Act. | Forum for efficient processing and resolution of customer complaints. |
| Deter fraud and other violations. Violators brought to justice. | Investigate and prosecute wrongdoing. | Conduct investigations in a thorough and timely manner, institute enforcement cases, and refer potential violations to other authorities, as appropriate. Sanction violators and publicize and enforce sanctions. Monitor the Internet for fraudulent activities and possible violations of the Act. | High level of compliance fostered. Potential violators deterred. |
| Appropriate level of regulation. | Review and adapt regulations with the evolving conditions and changes in the industry. | Review regulations and amend as appropriate. | Regulations that reflect needs of the industry and the public. |

*Outcome Objectives and Activities for Goal Two shown on page 12.

COMMODITY FUTURES TRADING COMMISSION
STRATEGIC PLAN

Goal Three*: Foster open, competitive, and financially sound markets.

| <i>Desired Outcome</i> | <i>Activities Designed to Achieve the Outcome</i> | <i>Actions Taken to Assure that Undertaken Activities Achieve the Outcome</i> | <i>Measures of Outcome Achievement</i> |
|--|---|---|--|
| Exchanges with sound trading practices and accurate audit trails. | Conduct trade practice investigations. Conduct floor surveillance. Review exchange audit trails. | Conduct investigations in a thorough and timely manner, institute enforcement cases, and refer potential violations to other authorities, as appropriate. Routine monitoring of audit trails. | Deterrence of trading abuses. Accurate audit trails |
| Exchanges with effective self-regulatory programs which detect and deter wrongdoing. | Review rules and rule changes. Conduct rule enforcement reviews. Review exchange disciplinary actions. | Approve rules which contribute to sound business and trading practices. Identify deficiencies and exceptions and notify SROs through audit reports or letters and follow-up to ensure compliance. Make recommendations to exchanges and follow-up to ensure compliance. | Exchanges operating effectively and safely. Exchanges with practices which comply with requirements. Swift and appropriate disciplinary actions taken by SROs. |
| Commodity firms and clearing organizations with sound financial practices. | Conduct oversight audits of commodity firms and clearing organizations. Conduct risk assessments and financial surveillance. | Issue recommendations to commodity firms and clearing organizations and follow-up to ensure compliance. | Preservation of customer funds. Firms with practices which comply with requirements. |
| Cooperative relationships with foreign regulators and jurisdictions including information sharing. | Establish MOUs and formal arrangements with foreign regulators and jurisdictions. | Honor and make requests for information sharing under arrangements. Pursue international MOUs or formal arrangements as warranted. | Responsive actions by foreign regulators and jurisdictions when information sharing is sought. |
| Competitive US markets within the US and on a global scale. | Review regulations concerning exchanges, clearing organizations, and registered futures associations. Review novel and innovative applications for new contracts, contract amendment, new rules, rule changes, and exemptive relief. | Adopt regulatory streamlining and modernization where possible. Review exchanges requests timely. | Responsive, flexible, and appropriate level of regulatory oversight. |

COMMODITY FUTURES TRADING COMMISSION
STRATEGIC PLAN

Goal Three*: Foster open, competitive, and financially sound markets.
(Continued)

| <i>Desired Outcome</i> | <i>Activities Designed to Achieve the Outcome</i> | <i>Actions Taken to Assure that Undertaken Activities Achieve the Outcome</i> | <i>Measures of Outcome Achievement</i> |
|--|--|--|---|
| Competitive US markets within the US and on a global scale. (Continued) | Provide exemptive, interpretive, or other relief as appropriate to foster the development of innovative transactions, trading systems, and similar arrangements consistent with the purposes of the Act and the protection of the public. Maintain membership in IOSCO. | Review requests timely. Establish global standards and "best practices" which ensure competitive posture for US markets and firms. | Develop appropriate regulatory standards to facilitate such arrangements. |
| Deter violations. Violators brought to justice. | Investigate and prosecute violators. | Conduct investigations in a thorough and timely manner, institute enforcement cases, and refer potential violations to other authorities, as appropriate. Sanction violators and publicize and enforce sanctions. | High level of compliance fostered. Potential violators deterred. |
| Appropriate level of regulation. | Review and adapt regulations with the evolving conditions and changes in the industry. | Review regulations and amend as appropriate. | Regulations that reflect needs of the industry and the public. |

*Outcome Objectives and Activities for Goal Three shown on page 13.

Measuring Performance:
The Annual Performance Plan

On an annual basis, the work of the Commission is directed through the Annual Performance Plan (APP). The APP establishes a full set of performance indicators and targets to ensure that day-to-day activities are appropriately defined and measured. Activities are outlined by performance indicators and performance targets for three years.

Relating General Goals and Objectives to Performance Goals and Program Evaluation

Program evaluation, or determining how well the performance targets CFTC has established are being achieved, is necessary to measure the effectiveness and efficiency of its work. Many program priority and resource allocation decisions hinge on the knowledge of what is going well and what is not. For the first three years of this plan, the Commission will use methods and processes already in place to evaluate how we are progressing on the implementation of the Strategic Plan and the Annual Performance Plan.

Quarterly Performance Review Process

The Quarterly Performance Review (QPR) process provides executive management with a review of program accomplishments for the fiscal quarter just completed and program priorities for the current fiscal quarter. The review also includes a summary of performance results for the past quarter based on the annual performance targets for each activity set forth in the Commission's Annual Performance Plan. The Commission uses the QPR as a method for setting overall priorities and allocating resources consistent with those priorities.

Management Accounting Structure Code System

Information concerning the distribution of labor at the Commission is captured through the financial reporting system called MASC – Management Accounting Structure Code System. This input data, provided by every employee on a bi-weekly schedule, reflects the hours they dedicate to various Commission activities and projects. The information is intended for use by agency program managers in their resource management activities, as well as to provide a database for documentation and support of the CFTC fee structure for such fee-generating activities as the designation of contract markets for trading on exchanges and rule enforcement reviews of the exchanges.

The MASC system is being reviewed with the goal of reengineering the present system to conform to the activity structure defined by this Strategic Plan. This evaluation will assess the current system's utility as the primary method for capturing the distribution of labor costs.

Status of Funds Reporting Process

The Status of Funds, a financial management reporting process, executed from the Commission's automated financial management system and presented to executive management, is the basis for periodic reports of the agency's financial condition and usage of its chief resource – staff-years. This process will be evaluated to determine how it may best facilitate the reporting of resource usage under the new framework of the Strategic Plan.

Stakeholders

The Commission's stakeholders – the public, the Congress, the Administration, other federal departments and agencies, market users, registrants, the exchanges, the NFA, and foreign authorities – are valuable resources that must be tapped to provide critical feedback on Commission goals and priorities. Understanding their perspectives will assist the Commission in clarifying its mission and directing its resources. We will evaluate how best to use these partnerships effectively.

The invaluable input of stakeholders was critical to the identification of strategic challenges and strategies for dealing with these challenges – the proposed “new regulatory framework” being the most obvious example of progress through partnering with interested parties.

Since 1997, the Commission's Strategic Plan has been published on the Commission's home page. Both present and former members of the CFTC's advisory committees were sent copies of the draft plan for comment. Finally, every former Commissioner and Chairman was contacted and asked to provide feedback to the Chairman. Likewise, this revised plan will be widely circulated to all interested parties; all comments submitted to the Commission will be considered in future updates to the Strategic Plan.

Leadership

The outcome envisioned by the Government Performance and Results Act is improved efficiency and effectiveness of federal programs through the establishment of a system to set goals for program performance and to measure the results.

As this planning and reporting process evolves, the Commission will evaluate how best to provide the leadership and direction to integrate program, cost, and budget information into a reporting framework that allows for fuller consideration of resource allocations, operational costs, and performance results.

Monitoring External and Internal Factors

The Commission will evaluate the most effective method for regularly reviewing key factors, external and internal to the agency, which may affect how it achieves its mission. This evaluation process will ensure that the Commission anticipates future challenges and makes adjustments to its goals, outcome objectives, and activities before potential issues and problems escalate.

As part of this evaluation the Commission will continue its refinement of mission-critical systems, such as the Integrated Surveillance System and the Exchange Database System and will look to defining other systems, such as the Enforcement Litigation Support System, that may provide assistance in anticipating issues and directing resources.

US Commodity Exchanges

There are 16 commodity exchanges in the United States, located in seven cities. These SROs are responsible, subject to CFTC oversight, for the operation of the exchange and the business conduct and financial responsibility of their member firms.

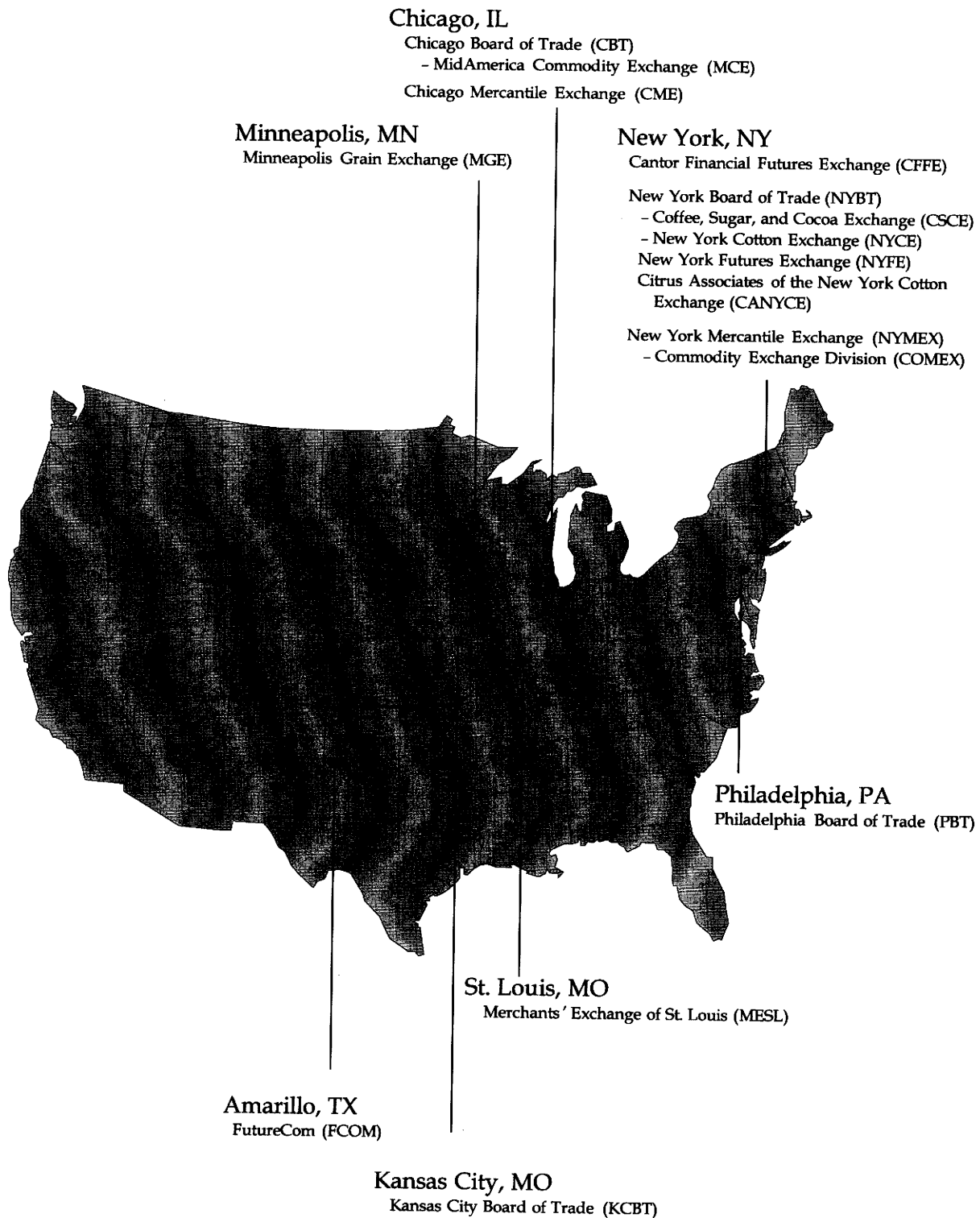
History

As the economy of the United States expanded during the early part of the nineteenth century, the commodity exchanges evolved from unorganized club-like associations into formalized exchanges. In 1848, the first formal exchange, the Chicago Board of Trade, was established with 82 members. And on March 13, 1851, the first contract was traded on this exchange, encouraged by the trading standards, inspections system, and weighing system prescribed by the board members.

Trading on the Chicago Board of Trade was considerable, and by 1870 futures trading also began on the New York Produce Exchange and the New York Cotton Exchange. By 1885, the New York Coffee Exchange was actively trading futures contracts. Since the second half of the nineteenth century, the growth of these exchange institutions has been steady and continuous—evolving into the 16 US commodity exchanges, designated as contract markets by the CFTC, that are used today.

The total volume of futures contract and option trading on all exchanges in the United States now has a notional value of billions of dollars per day. The commodity exchanges have become an indispensable financial tool for the world's markets.

*Updated Map of CFTC-Regulated Commodity Exchanges**



* CFTC-regulated commodity exchanges include only exchanges with non-dormant contracts.

Number of Registered Commodities Professionals

Companies and individuals who handle customer funds or give trading advice must apply for registration through the NFA, a Congressionally authorized SROs subject to CFTC oversight.

The Commission regulates the activities of over 65,350 registrants:

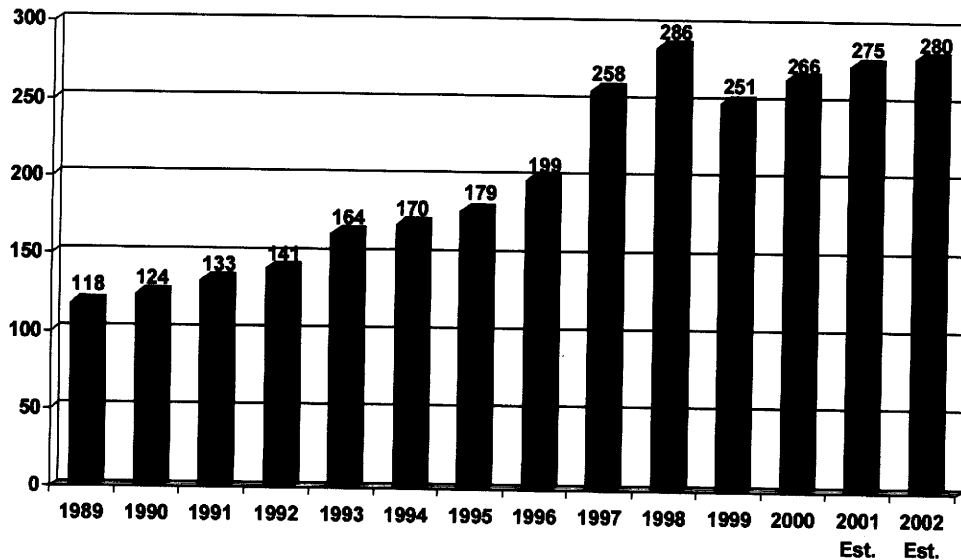
| <u>Type of Registered Professional</u> | <u>Number in September 2000</u> |
|---|--|
| <i>Associated Persons (Sales People)</i> | 47,839 |
| <i>Commodity Pool Operators (CPOs)</i> | 1,622 |
| <i>Commodity Trading Advisors (CTAs)</i> | 2,796 |
| <i>Floor Brokers (FBs)</i> | 9,248 |
| <i>Floor Traders (FTs)</i> | 1,414 |
| <i>Futures Commission Merchants (FCMs)</i> | 200 |
| <i>Introducing Brokers (IBs)</i> | <u>1,591</u> |
| TOTAL | 64,710 |

Number of Contract Markets

The Commission reviews the terms and conditions of proposed contracts, as well as subsequent rule amendments to the terms and conditions of contracts, to ensure their economic viability. Improperly designed contracts can increase the chance of cash, futures, or option market disruptions and undermine the usefulness and efficiency of a market.

The Commission has seen the introduction of new and novel trading instruments to handle a variety of financial risks, such as currencies, inflation-indexed debt instruments, contracts based on various domestic and foreign stock indices, as well as the risks inherent in the agricultural sector of the economy. It is expected that this innovation will continue as firms, companies, producers, processors, and others turn to the commodity futures markets for hedge protection against financial risk.

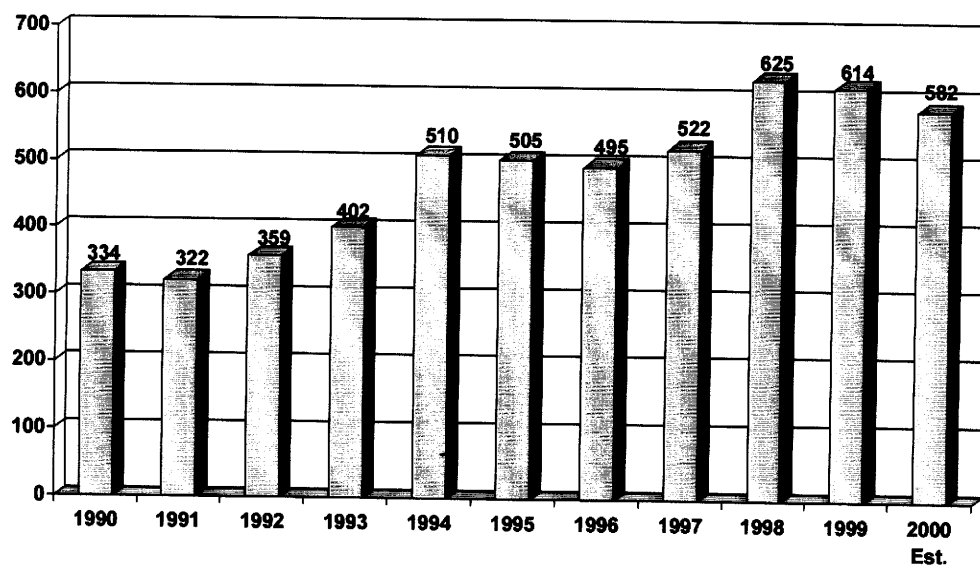
There are currently over 240 separate actively traded contracts on the United States exchanges. This number has doubled over the number of contracts traded just a decade ago and is expected to reach 280 contracts by FY 2002.



Actively Traded Contracts

Volume of Trading

Volume of trading is measured in number of contracts traded. The volume of trading on the US exchanges has almost doubled in the decade since 1990.

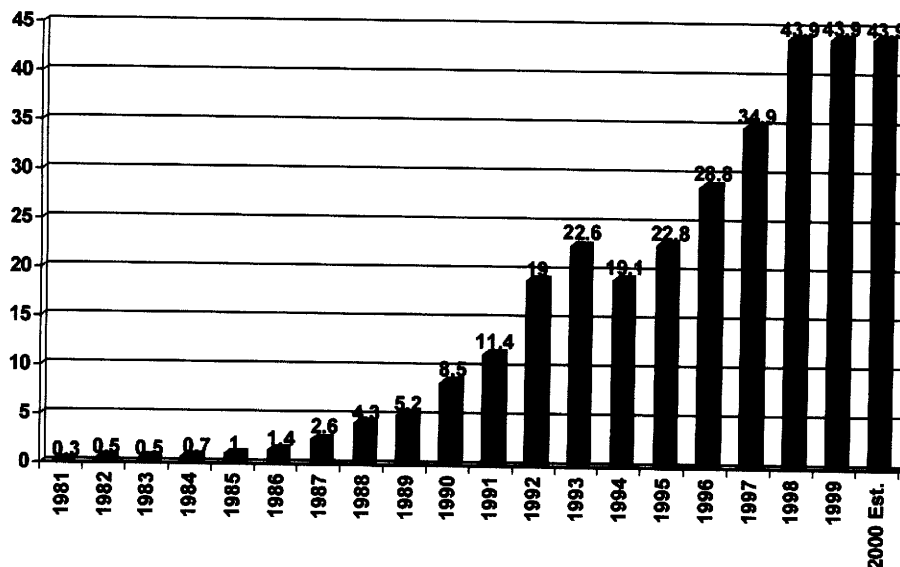


Volume of Trading in Futures and Option Contracts

Managed Funds

Investment management professionals have been using managed futures for more than 20 years. Recently, there has been a surge in pooled and managed money and an increasingly large segment of the population has money invested in the futures markets, either directly through pension funds or indirectly through other investment vehicles that participate in the markets. Institutional investors such as corporate and public pension funds, insurance companies, and banks are increasingly using managed futures to diversify their portfolios.

Over the last decade, from 1990 through 1999, the amounts of money under management has grown exponentially from just over \$8.5 billion to nearly \$44 billion.



Money Under Management in CFTC-Regulated Pools and Managed Accounts

Over the past 15 years, the profile of the typical commodity pool has changed significantly. Fifteen years ago, commodity pools were offered with the expectation that maximum contributions would be \$1 million. Most pools were single-advisor pools, with the CPO acting as CTA for the pool. Pools were designed for speculative trading, and there were no "principal-protected" pools, tiered pools, or dynamically managed pools.

Today, the pool universe is comprised of:

- Single and multiple advisor pools;
- Multi-media pools – that is, pools that invest in securities and futures as well as other investments, including "hot issues" of US securities, off-exchange instruments, and international markets;
- Pools which use leverage and isolate particular forms of return, such as the mortgage pre-payment option;
- Principal-protected pools; and
- Pools which invest in other pools.

Addresses of the Commodity Exchanges & Registered Futures Association

Chicago

Chicago Board of Trade
141 West Jackson Boulevard
Chicago, IL 60604

Chicago Mercantile Exchange
30 South Wacker Drive
Chicago, IL 60606

MidAmerica Commodity Exchange
141 West Jackson Boulevard
Chicago, IL 60604

Kansas City

Kansas City Board of Trade
4800 Main Street
Kansas City, MO 64112

Minneapolis

Minneapolis Grain Exchange
400 South Fourth Street
Minneapolis, MN 55415

Philadelphia

Philadelphia Board of Trade
1900 Market Street
Philadelphia, PA 19103

St. Louis

Merchants Exchange of St. Louis, L.L.C.
1010 Market Street
Suite 1400
St. Louis, MO 63101

COMMODITY FUTURES TRADING COMMISSION
STRATEGIC PLAN

New York

AMEX Commodities Corporation
86 Trinity Place
New York, NY 10006

Coffee, Sugar & Cocoa Exchange, Inc.
Four World Trade Center
New York, NY 10048

Cantor Financial Futures Exchange
Four World Trade Center
New York, NY 10048

New York Cotton Exchange
Four World Trade Center
New York, NY 10048
 NYFE Division
 CANYCE Division

New York Futures Exchange
Four World Trade Center
New York, NY 10048

New York Mercantile Exchange
One Northend Avenue
World Financial Center
New York, NY 10282
 COMEX Division
 NYMEX Division

Texas

FutureCom, Ltd.
800 South Monroe
Amarillo, Texas 79101

Registered Futures Association

National Futures Association

200 West Madison Street
Suite 1600
Chicago, IL 60606

CFTC Offices

Headquarters

Three Lafayette Centre
1155 21st Street, N.W.
Washington, D.C. 20581

Telephone: 202-418-5000

Eastern Regional Office

One World Trade Center
Suite 3747
New York, NY 10048

Telephone: 212-466-2061

Central Regional Office

300 South Riverside Plaza
Suite 1600 North
Chicago, IL 60606

Telephone: 312-353-5990

Southwestern Regional Office

4900 Main Street
Suite 721
Kansas City, MO 64112

Telephone: 816-931-7600

Sub-Office

510 Grain Exchange Building
Minneapolis, MN 55415

Telephone: 612-370-3255

Western Regional Office

Murdock Plaza
10900 Wilshire Boulevard, Suite 400
Los Angeles, CA 90024

Telephone: 310-235-6783

CFTC Team

Organizational Structure

Based in Washington, D.C. the Commodity Futures Trading Commission maintains regional offices in Chicago and New York, and has field offices in Kansas City, Los Angeles, and Minneapolis. The CFTC consists of five Commissioners, appointed by the President to serve staggered five-year terms. One of the Commissioners is designated by the President, with the consent of the Senate, to serve as Chairman. No more than three Commissioners at any one time may be from the same political party.

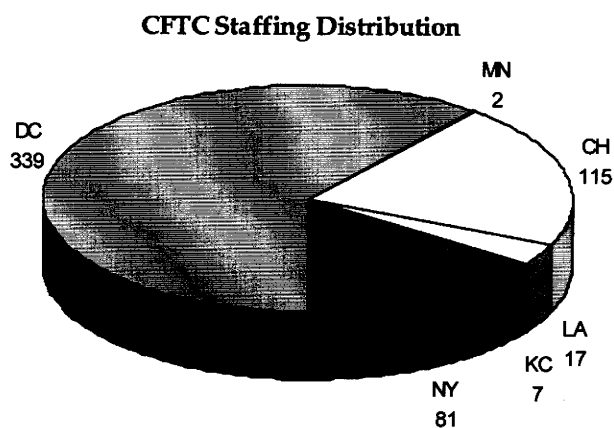
The Chairman oversees the management of the agency and its five major organizational units:

- Division of Economic Analysis
- Division of Enforcement
- Division of Trading and Markets
- Office of the General Counsel
- Office of the Executive Director

Staffing

The Commission is requesting 561 full-time equivalent staff-years, or FTEs, in FY 2000. A regional staffing distribution is shown below:

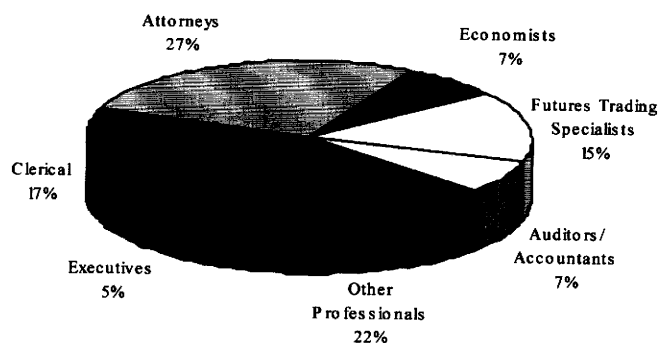
| | |
|-----------------------|----------|
| Washington, D.C. (DC) | 339 |
| Chicago, IL (CH) | 115 |
| New York, NY (NY) | 81 |
| Los Angeles, CA (LA) | 17 |
| Kansas City, MO (KC) | 7 |
| Minneapolis, MN (MN) | <u>2</u> |
| Total Staff-Years | 561 |



Occupations

The principal professional occupations at the Commission are attorney, economist, futures trading specialist and investigator, auditor and computer specialist. These professionals are assisted in their work by a wide range of administrative and support personnel. ^{1/}

CFTC Occupational Distribution

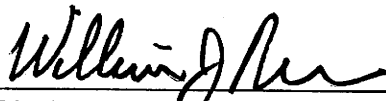


^{1/} "Executives" include Chairman, Commissioners, and managers in the Senior Executive Service. "Other Professionals" include computer analysts, budget and finance professionals, human resource specialists, and contracting officials.

SERIAL CONCURRENCE

SUBJECT: Update of FY 2000 - FY 2005 Strategic Plan


RECOMMENDATION: That the Commission approve the update of the Commission's FY 2000 - FY 2005 Strategic Plan for submission to Congress and the Office of Management and Budget as required by the Government Performance Results Act


Chairman William J. Rainer

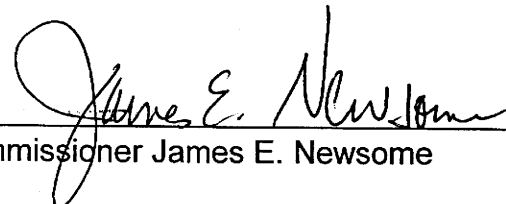
10/10/00
Date


Commissioner Barbara Pedersen Holum

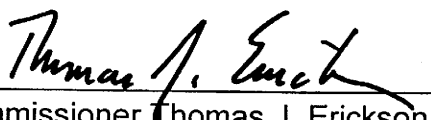
10.4.00
Date


Commissioner David D. Spears

10/4/00
Date


Commissioner James E. Newsome

10/3/00
Date


Commissioner Thomas J. Erickson

10-3-00
Date

Publications and Information

For a list of other CFTC publications or for more information on the CFTC, please visit the CFTC's home page on the World Wide Web. The Commission's Web address is <http://www.cftc.gov>.

Or contact the Office of Public Affairs, Commodity Futures Trading Commission at:

Three Lafayette Centre
1155 21st Street, N.W.
Washington, D.C. 20581

(202) 418-5080